



GOVERNOR
BRIAN SCHWEITZER
STATE OF MONTANA

Governor's Budget
Fiscal Years 2012 – 2013

Revenue Estimates
General Fund and Select Funds

Governor's Office of Budget
and Program Planning



Volume 2

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Revenue Estimates

2013 Biennium



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STATE OF MONTANA

ECONOMIC OVERVIEW

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GOVERNOR'S OFFICE OF
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Introduction

The executive budget is based on assumptions about economic conditions through the 2013 biennium. This section describes the key economic assumptions that are common to all of the revenue estimates. It also provides some background information by describing long-term trends in the state economy. The estimate sections describing individual revenue forecasts explain how each revenue source is related to economic conditions, and any assumptions that are unique to specific revenue sources.

National Economic Conditions

The national economy went through a mild recession in calendar years (CY) 2000 and 2001; impact on a fiscal year (FY) basis was somewhat muted by its short duration. The national economy recovered steadily through FY 2007 with the growth of gross domestic product (GDP) accelerating. The nation is currently emerging from its most severe post-war economic downturn. The "Great Recession" has been characterized by an almost unprecedented negative nominal GDP "growth" and nearly three years of declining employment. Table 1 summarizes three key national economic indicators for fiscal years 2000 through 2010 and Global Insight's forecasts for FY 2011 through FY 2013.

Table 1 Gross Domestic Product, National Employment, and Inflation					
Fiscal Year	Gross Domestic Product (\$billions)	Percent Change	Employment (millions)	Percent Change	Inflation Rate
2000	\$9,668	6.6%	130.597	2.5%	2.9%
2001	\$10,153	5.0%	132.252	1.3%	3.4%
2002	\$10,445	2.9%	130.876	-1.0%	1.8%
2003	\$10,841	3.8%	130.116	-0.6%	2.2%
2004	\$11,512	6.2%	130.474	0.3%	2.2%
2005	\$12,248	6.4%	132.470	1.5%	3.0%
2006	\$13,047	6.5%	135.011	1.9%	3.8%
2007	\$13,716	5.1%	136.966	1.4%	2.6%
2008	\$14,312	4.4%	137.726	0.6%	3.7%
2009	\$14,190	-0.9%	133.911	-2.8%	1.4%
2010	\$14,354	1.2%	129.952	-3.0%	1.0%
2011	\$14,880	3.7%	130.580	0.5%	1.3%
2012	\$15,489	4.1%	132.695	1.6%	1.8%
2013	\$16,182	4.5%	135.724	2.3%	2.0%

U.S. Corporate Sector

Table 2 presents the developments in the United States corporate sector, as represented by corporate profits and the path of the Standard & Poor's 500 stock index (S&P 500), for FY 2000 through FY 2010 and the Global Insight baseline forecast for FY 2011, FY 2012, and FY 2013. The table shows that, as the national economy went through the 2001/2002 recession, corporate profits declined in FY 2002 and FY 2003 but rebounded sharply. With the current recession corporate profits slowed in FY 2007 and then declined rapidly until FY 2010 when they bounced back strongly, recovering most of the decline of the prior two years.

Table 2
Corporate Profits and
Standard & Poor's 500 Stock Index

Fiscal Year	Corporate Profits (\$ billions)	Percent Change	S&P 500 Index	Percent Change
2000	\$794	7.1%	1,395	16.4%
2001	\$755	-4.9%	1,337	-4.2%
2002	\$689	-8.7%	1,115	-16.6%
2004	\$1,064	27.0%	1,078	20.5%
2005	\$1,436	35.0%	1,160	7.6%
2006	\$1,756	22.3%	1,255	8.2%
2007	\$1,794	2.2%	1,400	11.6%
2008	\$1,615	-10.0%	1,427	1.9%
2009	\$1,163	-28.0%	966	-32.3%
2010	\$1,620	39.2%	1,086	12.4%
2011	\$1,777	9.7%	1,125	3.6%
2012	\$1,860	4.7%	1,213	7.8%
2013	\$1,880	1.1%	1,304	7.6%

The forecast for corporate profits anticipates they will remain on an upward trend. The S&P 500 index forecast reflects those trends as well. While the corporate profits forecast in Table 2 are estimates of large national firm profits, Montana participates in this national activity. In fact, the largest 20 Montana corporate license tax filers (of over 13,000 total filers) generally pay over 50% of Montana's annual corporate tax receipts. Thus, the bulk of corporate license tax revenues are better reflected in the national corporation profits and S&P 500 index trends. Income from "main street" Montana businesses is principally reflected in Montana personal income with taxes on those incomes reported on individual income tax returns, as these firms file partnership and "S" corporation returns. As discussed (below), the Montana personal income statistics are anticipated to begin to grow more rapidly.

Montana Production and Income

The impact on the Montana economy of national economic events can be seen in Table 3 which presents the evolution of Montana's gross state product (GSP) and personal income over time. The Montana economy grew more slowly than the national economy through the 2001 recession but outpaced the national economy between FY 2003 and FY 2009. Global Insight forecasts this broad measure of state economic activity to pick up at a pace similar to the national economy as a whole. The projection for FY 2011 through FY 2013 is for a slower recovery (averaging 4.1% GSP growth per year) than is typical after a significant recession. During the previous comparable post-recession period of recovery (FY 2003- 2006) GSP growth averaged 6.4% per year.

Montana personal income is a good summary indicator of economic impact on state revenues as it is the product of the interaction of multiple variables (wages and salaries, capital gains, transfers, proprietors' incomes, inflation, etc.) with high incidence on state revenue. Personal income in Montana grew rapidly during the FY 2000 through FY 2009 period (6.2% per year on average). The effect of the national economic downturn in CY 2001/2002 is seen in much slower growth during FY 2002 and FY 2003 than in the years preceding or following the recessionary period. Global Insight forecasts Montana personal incomes in Montana to grow at approximately 60% of the rate of the previous expansion (6.2%) as the projected average growth rate for FY 2011 and the 2013 biennium is 3.6%.

Table 3
Gross State Product and Personal Income
(\$ millions)

Fiscal Year	Gross State Product	Percent Change	Personal Income	Percent Change
2000	\$20,870	3.37%	\$20,412	4.52%
2001	\$21,901	4.9%	\$22,142	8.5%
2002	\$22,992	5.0%	\$23,112	4.4%
2003	\$24,353	5.9%	\$23,971	3.7%
2004	\$26,588	9.2%	\$25,651	7.0%
2005	\$28,545	7.4%	\$27,245	6.2%
2006	\$30,924	8.3%	\$29,306	7.6%
2007	\$32,843	6.2%	\$31,481	7.4%
2008	\$35,371	7.7%	\$33,476	6.3%
2009	\$35,473	0.3%	\$33,980	1.5%
2010	\$35,639	0.5%	\$34,416	1.3%
2011	\$37,048	4.0%	\$35,675	3.7%
2012	\$38,488	3.9%	\$36,882	3.4%
2013	\$40,154	4.3%	\$38,286	3.8%

Montana Employment and Population

Montana non-farm employment and population for FY 2000 through FY 2010 is presented in Table 4 along with Global Insight's forecasts through FY 2013. The recession of 2001 slowed Montana's labor market growth however, total employment did not decline. The post-2007 recession however has resulted in the largest decline in overall employment since 1976 (when the current employment series began) and has been marked by three fiscal years of declining employment. Employment has begun to recover slowly from the depths of the "Great Recession" but is not projected to return to the rapid growth of the FY 2005 to FY 2007 period until after the 2013 biennium. However, employment growth is expected to continue to pick-up at an increasing rate during the biennium.

Table 4
Montana Employment and Population

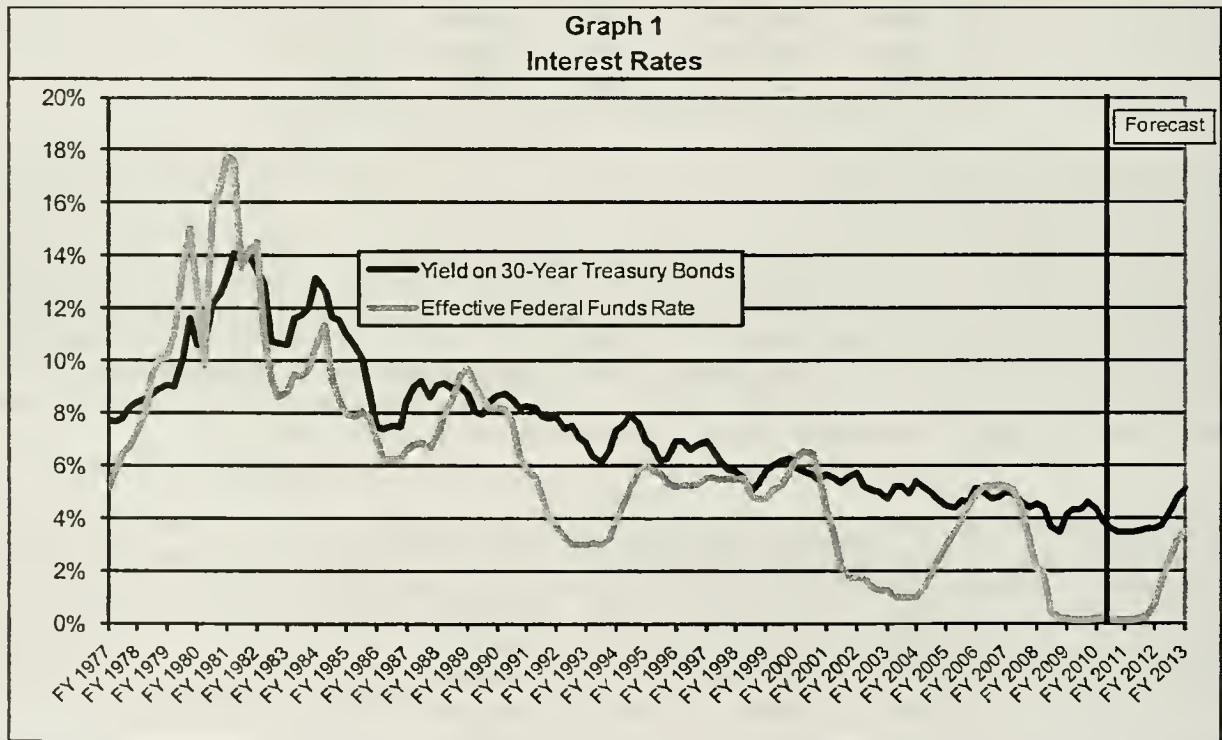
Fiscal Year	Employment	Percent Change	Population	Percent Change
2000	388.158	2.2%	901.295	0.6%
2001	391.975	1.0%	904.905	0.4%
2002	392.800	0.2%	908.369	0.4%
2003	398.442	1.4%	914.166	0.6%
2004	405.408	1.7%	922.454	0.9%
2005	415.792	2.6%	931.451	1.0%
2006	428.508	3.1%	941.933	1.1%
2007	440.175	2.7%	953.092	1.2%
2008	446.784	1.5%	963.972	1.1%
2009	437.617	-2.1%	972.378	0.9%
2010	426.525	-2.5%	979.392	0.7%
2011	426.137	-0.1%	986.628	0.7%
2012	431.522	1.3%	994.147	0.8%
2013	439.555	1.9%	1,001.950	0.8%

In the second half of the 2000s, Montana's population grew at over one percent (1.0%) per year. Population grew as the economy attracted returning Montanans and migrants from the rest of the United States. The table shows that even as population growth continues in Montana, it will be below FY 2005 to FY 2008 rates. It is believed that mobility is limited by effects of the collapse of the housing bubble.

Interest Rates

The state earns interest on trust funds, such as the coal severance tax trust fund, the school trust, and the tobacco settlement trust, and on short-term cash holdings in the general fund and other state funds. The state also pays interest on funds it borrows. Trust fund interest earnings and payments on debt are affected by changes in long-term interest rates. Most bonds held by the state trust funds are kept for several years; consequently, trust fund interest earnings are affected more by long-term trends than year-to-year variations. On the other hand, interest earnings on cash balances and interest payments on short-term debt are affected by short term interest rates.

Graph 1 shows the effective federal funds rate and the annualized yield on 30-year U.S. Treasury obligations from FY 1977 through the first quarter of FY 2010 and Global Insight's forecast through FY 2013.

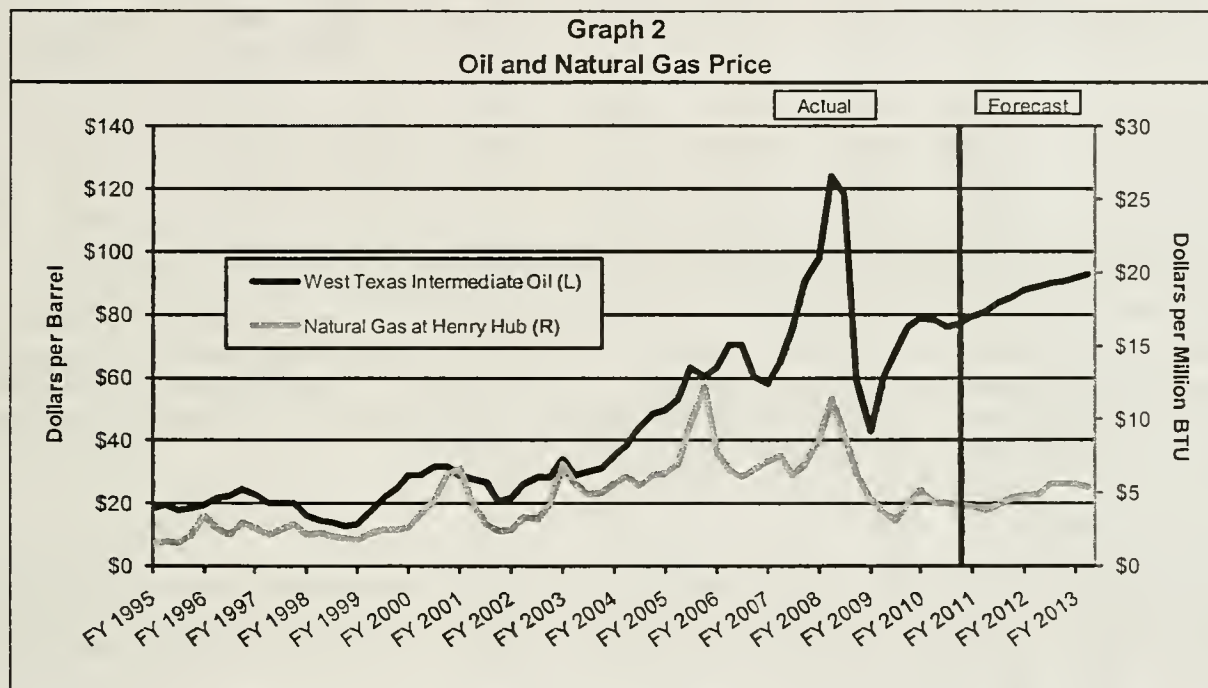


Interest rates hit historic highs in 1981, with both short-term and long-term interest rates at over 14%. Interest rates have decreased since 1981 to recent unprecedented lows as the Federal Reserve Open Market Committee (FOMC), moved to stem the decline in the economy in the fall of 2008. The FOMC decreased the target federal funds rate (the rate banks charge each other to meet overnight reserve requirements) to near zero and worked to increase the money supply, as financial markets locked-up, by purchasing government and private sector bonds (so-called "Quantitative Easing"). The graph shows that short-term interest rates are more volatile than long-term rates. When the FOMC wants to dampen inflationary expectations, they act by increasing the target federal funds rate and short-term interest rates rise. This is expected to happen late in FY 2012 once the economy is seen to be on the road to a more normal recovery.

Oil and Natural Gas Prices

Oil and natural gas prices have impact on the state budget through several channels. The state taxes oil and natural gas production, receives royalties from production on state lands, shares the royalties from production on federal land located in the state, and taxes the income from production. Energy prices are transmitted through the state economy in general, with higher prices translating into higher incomes for the energy producers and higher costs for consumers.

Graph 2 shows national oil and natural gas prices from FY 1995 through the first quarter of FY 2010, and Global Insight's forecasts through FY 2013. It shows the price of a standard grade of a barrel of crude oil, West Texas Intermediate, measured on the left axis and the price of natural gas per million BTU at Henry Hub, a common benchmark market on the right axis.



Oil and natural gas prices have become more volatile since 1995. Energy consumption is relatively insensitive to prices in the short-run. As a result, near-term changes in supplies can produce large price swings. In the long-run, energy users respond to higher prices by conserving and using energy more efficiently. Oil and gas producers respond to sustained higher prices by increasing exploration and development activities which tend to increase production.

From about 1987 through 1999, oil and natural gas prices were relatively low as world supplies were plentiful. However, for several reasons, oil and natural gas prices have risen significantly since 1999. First, world supplies have been stagnant. Oil and gas fields developed in the 1970s are being depleted and relatively low oil prices limited exploration. Second, world demand has steadily grown as income growth in developing countries, particularly China, has enabled consumers to afford cars, appliances, and other energy using consumer goods. Third, short-term supply disruptions such as wars, political instability in producing regions, and hurricane damage have led to short-term price spikes.

Both oil and natural gas prices peaked during FY 2008 and have dropped until recently. Oil is forecast to rise slowly as world energy demand remains begins to rise. Oil prices are forecast to remain in the mid \$80s per barrel through the 2013 biennium

Age Structure of the Montana Population

Table 5 shows, the 1990 and 2000 census counts, and Global Insight's 2010 and 2015 population forecast grouped into ten-year age groups (cohorts) and the percent of the total population in each group.

Table 5								
Age Structure of Montana Population								
Age	1990 Census		2000 Census		2010 Forecast		2015 Forecast	
	Persons	%	Persons	%	Persons	%	Persons	%
0-9	125,603	15.7%	116,609	12.9%	122,360	12.4%	129,190	12.6%
10-19	120,285	15.0%	140,404	15.5%	125,800	12.8%	122,870	12.0%
20-29	104,491	13.0%	109,966	12.2%	142,990	14.5%	140,830	13.8%
30-39	134,798	16.8%	118,349	13.1%	110,660	11.3%	123,100	12.0%
40-49	104,085	13.0%	148,918	16.5%	124,670	12.7%	117,760	11.5%
50-59	71,729	8.9%	109,839	12.2%	149,100	15.2%	144,710	14.2%
60-69	66,959	8.3%	70,879	7.8%	106,320	10.8%	122,640	12.0%
70-79	49,789	6.2%	54,778	6.1%	59,500	6.1%	73,660	7.2%
80+	24,201	3.0%	33,924	3.8%	41,600	4.2%	47,160	4.6%
Total	801,939	100.0%	903,666	100.0%	983,000	100.0%	1,021,920	100.0%

The table shows, amongst other factors, that the population over the age of 60 year is growing as a share of the population. By the 2000 census, this group represented 17.7% of the population, whereas by 2015 it is expected to include 23.8% of the state's people. This aging of the population mirrors national trends and is expected to continue. In 2015, the 40 and over age group is forecast to contain over 50% of the population.

Economic Structure

Table 6 shows Montana's GSP divided into eleven sectors. Actual GSP, divided by sector, is shown for CY 2004 and CY 2008, and forecast amounts are shown for CY 2012 and CY 2016. For sectors that have grown faster than the economy as a whole, the percent of total output has increased over time. For sectors that have not grown as fast as the economy, the percent has decreased.

Table 6								
Montana Gross State Product by Sector								
(\$ millions)								
Economic Sector	CY 2004		CY 2008		CY 2012		CY 2016	
	\$	%	\$	%	\$	%	\$	%
Other Services	\$6,482	23.6%	\$8,864	24.7%	\$10,228	26.0%	\$12,384	26.4%
Finance, Insurance, & Real Estate	\$4,297	15.7%	\$5,568	15.5%	\$6,443	16.4%	\$7,791	16.6%
Transp., Comm., & Util.	\$3,110	11.3%	\$3,973	11.1%	\$4,593	11.7%	\$5,390	11.5%
State and Local Gov't, Schools	\$3,032	11.0%	\$3,834	10.7%	\$4,414	11.2%	\$5,211	11.1%
Retail Trade	\$2,038	7.4%	\$2,533	7.1%	\$2,735	7.0%	\$3,207	6.8%
Manufacturing	\$1,383	5.0%	\$1,451	4.0%	\$1,566	4.0%	\$1,873	4.0%
Wholesale Trade	\$1,534	5.6%	\$1,850	5.2%	\$1,975	5.0%	\$2,287	4.9%
Construction	\$1,669	6.1%	\$2,007	5.6%	\$2,023	5.1%	\$2,352	5.0%
Federal Government	\$1,059	3.9%	\$1,217	3.4%	\$1,458	3.7%	\$1,650	3.5%
Agriculture, Forestry, & Fishing	\$1,345	4.9%	\$1,496	4.2%	\$1,244	3.2%	\$1,423	3.0%
Mining	\$1,019	3.7%	\$2,543	7.1%	\$1,986	5.0%	\$2,491	5.3%
Military	\$485	1.8%	\$553	1.5%	\$667	1.7%	\$764	1.6%
Total	\$27,453	100.0%	\$35,888	100.0%	\$39,331	100.0%	\$46,823	100.0%

The Montana economy has increasingly become less of a primary goods-producing economy. Agriculture and mining boomed in 2008 on higher prices at 8.6% of the economy but the long-term trend suggests that the primary production share will drop to below 7% of gross state product. Services are expected to continue to expand. Four sectors produce services almost exclusively: 1) finance, insurance, and real estate; 2) retail trade; 3) wholesale trade; and 4) other services. Four sectors produce physical goods almost exclusively: 1) manufacturing; 2) agriculture, forestry, and fishing; 3) mining; and 4) construction. The other four sectors produce a mix of goods and services. Together, the services only sectors accounted for 52.5% of state income in 2008, and they are predicted to account for 64.7% of state income in 2012. The goods-producing sectors accounted for 20.9% of state income in 2008 and are forecast to make-up 17.3% of state income in 2012. The mixed sectors accounted for 26.6% of state income in 2008 and are predicted to account for 18% of state income in 2012.

Table 7 shows actual Montana wage and salaries divided into fifteen sectors¹ for CY 2004 and CY 2008, and Global Insight's forecast for CY 2012 and CY 2016.

Table 7
Montana Wage and Salary Income by Economic Sector
(\$ millions)

Economic Sector	2004		2008		2012		2016	
	\$	%	\$	%	\$	%	\$	%
Educational & Health Svcs	\$1,631	13.5%	\$2,164	13.8%	\$2,710	16.0%	\$3,281	16.3%
State & Local Government, Schools	\$1,965	16.2%	\$2,449	15.6%	\$2,676	15.8%	\$3,130	15.6%
Professional & Business Svcs	\$1,003	8.3%	\$1,501	9.6%	\$1,756	10.1%	\$2,325	11.4%
Construction and Mining	\$1,168	9.7%	\$1,744	11.1%	\$1,617	9.5%	\$2,072	10.3%
Retail Trade	\$1,147	9.5%	\$1,403	9.0%	\$1,452	8.5%	\$1,662	8.3%
Financial Activities	\$742	6.1%	\$955	6.1%	\$996	5.4%	\$1,109	5.2%
Leisure & Hospitality	\$698	5.8%	\$929	5.9%	\$953	5.6%	\$1,065	5.3%
Manufacturing	\$677	5.6%	\$810	5.2%	\$837	5.8%	\$1,008	5.9%
Transportation, Warehousing & Utilities	\$651	5.4%	\$799	5.1%	\$858	6.0%	\$960	5.7%
Federal Government	\$690	5.7%	\$786	5.0%	\$841	5.9%	\$893	5.3%
Wholesale Trade	\$583	4.8%	\$760	4.9%	\$762	7.5%	\$867	7.2%
Other Services	\$402	3.3%	\$504	3.2%	\$543	3.2%	\$586	2.9%
Agriculture, Forestry & Fishing	\$213	1.8%	\$257	1.6%	\$330	2.0%	\$402	2.0%
Military	\$257	2.1%	\$287	1.8%	\$326	2.8%	\$377	2.8%
Information	\$273	2.3%	\$304	1.9%	\$331	2.0%	\$375	1.9%

Wages and salaries for professional and business services have consistently grown faster than wages in the economy as a whole, and are expected to continue along this trend. As the population ages, health services are expected to drive continued growth in the education and health service group. State and local governments as well as local schools are expected to maintain their share of personal income but not grow. Construction and mining will drop slightly from their 2008 peak.

Comparison of Forecast Service Projections

The Legislative and Executive branches have, for many years, used Global Insight as the principal vendor of purchased economic data/econometric projections. In September 2010, the Revenue and Transportations Interim Committee directed that a subscription to Moody's Analytics be used by the Legislative Fiscal Division. The Office of Budget and Program Planning (OBPP) has also paid for access to Moody's Analytics. With the addition of Moody's Analytics

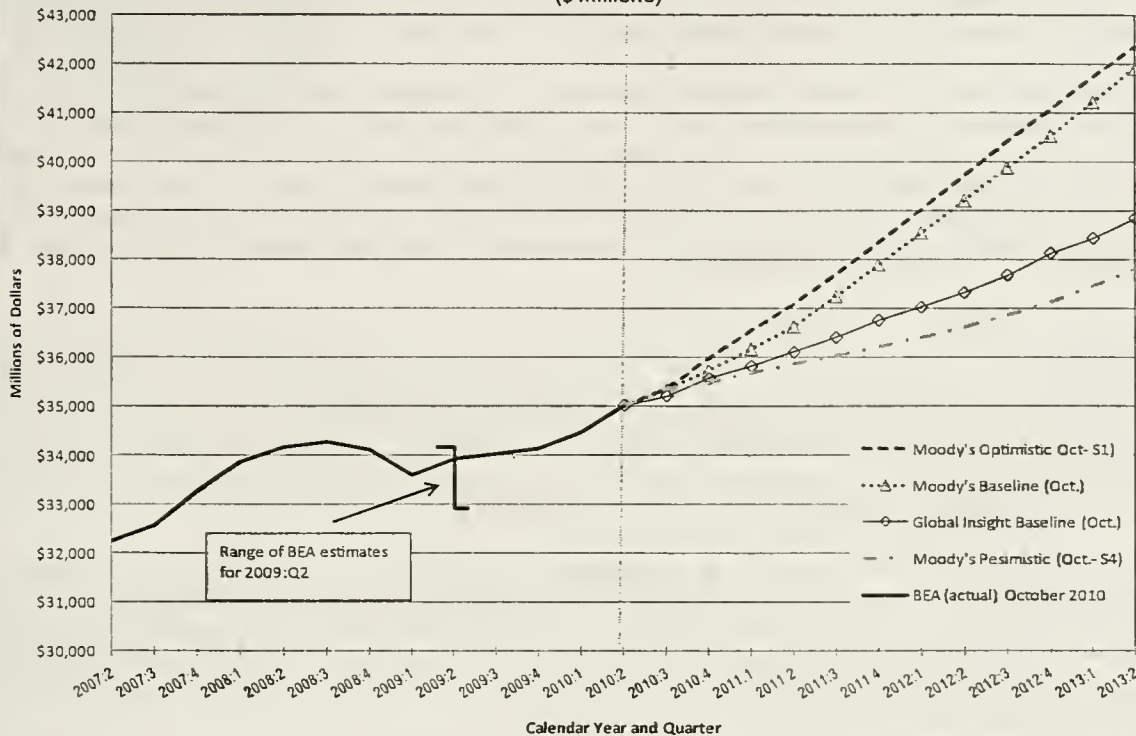
¹ The growth in total wages and salaries for a sector is due to a combination of growth in employment in the sector and growth of wages. These differ between sectors.

forecasts to IHS Global Insight forecasts there are now ten different possible forecast scenarios that can be used for revenue estimating purposes. However, direct comparison of the relative probability each forecasting service assigns to estimates is not straight forward. The probabilities of IHS Global Insight's three scenarios add up to 100%, but Moody's Analytics provides seven scenarios – one optimistic, one baseline scenario (which is un-weighted but presumably has the highest single probability), and five other (generally more pessimistic) scenarios which range in probability from 25% to 4%. These five scenarios sum to a 53% probability. However, both firms have provided a comparable assessment of their perceptions of a chance of a second recession. As of their October forecasts Moody's Analytics assessment of the odds of a second recession is one-in-three chance of such an event whereas, IHS Global Insight has assigned that risk a one-in-four chance. These probabilities are summarized in table 8 that follows.

Table 8 Comparison of Probabilities Assigned to October 2010 Economic Scenarios		
Scenario	IHS Global Insight	Moody's Analytics
Optimistic	15%	10%
Baseline	60%	37%
Pessimistic	25%	53% ¹
Odds of a near-term recession	1 in 4 chance	1 in 3 chance
¹ Five scenarios with probabilities of ranging from 4% to 25%, summing to 53%.		

The most likely of the various forecasts is illustrated in by the following chart (Graph 3) comparing forecast scenarios of Montana personal income from both services. As was stated earlier, personal income is a good summary indicator of economic impact on state revenues as it is the product of the interaction of multiple variables (wages and salaries, capital gains, transfers, proprietors' incomes, inflation, etc.) with high incidence on state revenue.

Graph 3
Comparison of Global Insight Baseline and Moody's Analytics Forecasts
Total Montana Personal Income
 (\$ millions)



Using Moody's Analytic's October 2010 baseline assumptions in the individual income tax and corporation license tax revenue estimate models instead of the Global Insight October 2010 baseline would add approximately \$87 million to the current OBPP three-year revenue forecast.

Risks

In summary, the executive budget is based on assumptions about economic conditions through the 2013 biennium. The recent period of extraordinary economic turmoil makes clear that uncertainty presents inherent risks that have to be accounted for in selecting forecasts on which to base revenue estimates. The consensus of forecasters has the economy avoiding a "double-dip" recession but growing slowly in the near term before growth accelerates.

Care, if not caution, also needs to be taken in assuming a repeat of the October 2008 to April 2009 plunge in economic activity. The "Great Recession's" unprecedented declines had signals that began to unfold between August 2007 and October 2008, after imbalances developed over the housing and finance bubble of 2003 to 2007. The recession also exposed other structural weaknesses in the economy which by their very nature of being exposed means they can be addressed or their risks evaluated. Forecasters, having been challenged by the "Great Recession," appear to be better conditioned to look for "black swans" (extremely rare and unanticipated events) and appear to be more conservative in their outlooks. This should limit downside forecasting risk.

Uncertainties remain, as always, as forecasters try to identify the source for the next economic "shock" and how that might work through the economy. Currently, optimistic scenarios point to increased consumer savings and pent-up demand leading to increased economic activity. Pessimistic scenarios see the risk of sovereign debt default rising and the emergence of trade disputes holding back growth. Most forecasters recognize the "working out" of the housing bubble with household's and financial sector firm's rebuilding of balance sheets leading to a slower than usual post-recession economic recovery. These scenarios also recognize that Federal fiscal issues will need to be addressed in the mid-term but there continue to be near-term concerns about deflation.

While all forecasts inherently contain elements of uncertainty, both the Moody's Analytics and IHS Global Insight baseline and alternate scenario forecasts were reviewed. They provide a weighted and balanced consideration of potential positive and adverse risks. These revenue estimates were prepared after an assessment of all the available scenarios. In order to provide an internally consistent set of revenue estimates, the IHS Global Insight baseline forecast was selected as it is the most conservative baseline forecast and incorporates a good balance of all the scenarios provided by the state's two forecasting services.



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STATE OF MONTANA

GENERAL FUND REVENUE SUMMARY SECTION 2

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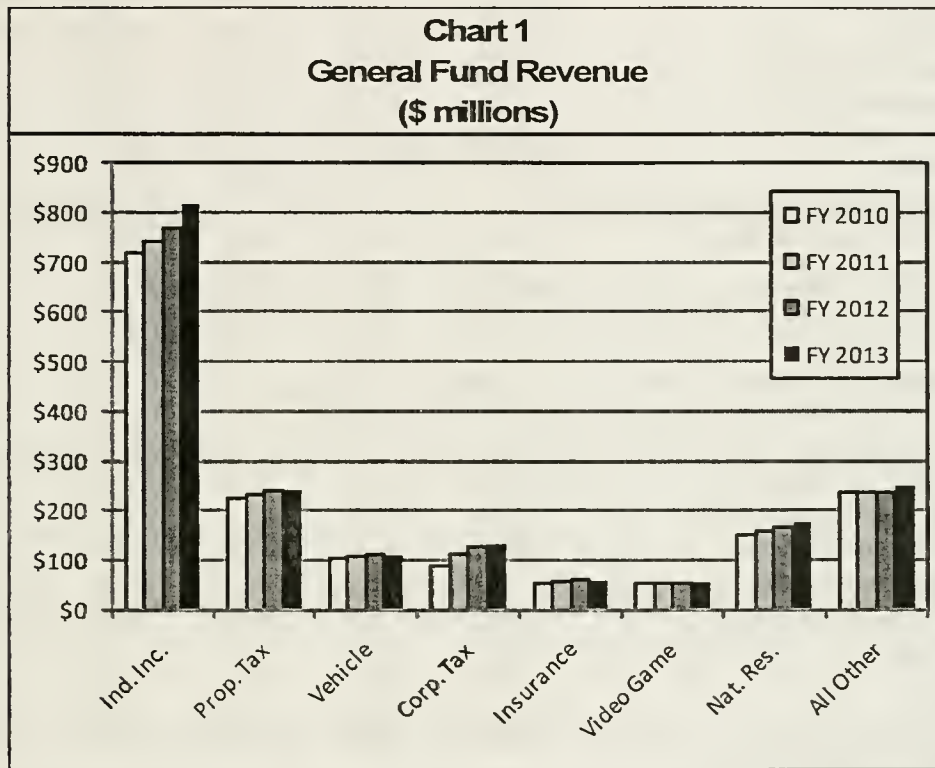


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BUDGET AND PROGRAM PLANNING

General Fund Revenue Summary

2013 Biennium

The state general fund accounts for all the state's financial resources, except for those legally mandated to be accounted for in another fund. Chart 1 divides general fund revenue into eight groups. The seven largest revenue groups accounted for 85.5% of general fund revenue in FY 2010, with each source contributing in excess of \$50 million.



Individual income tax is the largest revenue source. Individual income tax revenue is forecast to be \$1,568.8 million in the 2013 Biennium, accounting for 44.0% of the general fund revenue. Property tax revenue is forecast to be \$481.0 million, representing 13.3% of the general fund revenue. Corporate license tax revenue is forecast to be \$221.8 million in the 2013 Biennium, representing 6.2% of general fund revenue. Vehicle revenue includes vehicle taxes and registration fees. The natural resource category is comprised of oil and natural gas production taxes, U.S. mineral royalties, coal severance tax, metal mines tax, electrical energy tax and wholesale energy transaction tax.

Table 1 on the following page shows the 34 general fund revenue categories. The six major taxes, which each bring in more than \$50 million per year, are estimated to be 77.1% of the general fund revenue in 2013 Biennium. As a group, natural resource taxes are estimated to contribute 9.5% of the general fund in the 2013 biennium. All other revenue groups are forecast to contribute 13.4% of the total general fund revenue in the 2013 biennium.

Table 1
General Fund Revenue

Revenue Category	Actual FY 2010	Forecast FY 2011	Forecast FY 2012	Forecast FY 2013	Biennial Share
MAJOR TAXES					
Individual Income Tax	717.83	741.07	767.44	819.36	44.04%
Property Tax	222.51	231.46	238.44	242.53	13.35%
Vehicle Taxes and Fees	103.86	107.30	110.49	111.29	6.15%
Corporation License Tax	87.90	111.65	125.83	132.68	7.17%
Insurance Premiums Tax	54.89	56.85	59.20	60.93	3.33%
Video Gambling Tax	52.40	51.81	53.93	56.40	3.06%
Total Major Taxes	1,239.39	1,300.14	1,355.33	1,423.19	77.11%
NATURAL RESOURCE TAXES					
Oil and Gas Production Taxes	95.49	98.22	104.91	110.30	5.97%
U.S. Mineral Royalties	30.29	31.96	32.35	32.37	1.80%
Coal Severance Tax	10.32	12.41	12.01	12.03	0.67%
Metalliferous Mines Tax	6.54	7.86	9.82	10.69	0.57%
Electrical Energy Tax	4.71	4.69	4.70	4.73	0.26%
Wholesale Energy Transactions Tax	3.85	3.85	3.85	3.88	0.21%
Total Natural Resource Taxes	151.20	158.99	167.65	173.99	9.48%
INTEREST EARNINGS					
Coal Trust Interest Earnings	26.91	25.30	25.52	26.63	1.45%
Treasury Cash Account Interest	2.69	7.80	8.14	17.71	0.72%
Total Interest Earnings	29.61	33.10	33.66	44.35	2.17%
LIQUOR TAXES					
Liquor Excise and License Taxes	15.63	15.70	15.86	16.02	0.88%
Liquor Profits	9.00	9.01	9.11	9.16	0.51%
Beer Tax	3.03	3.11	3.17	3.23	0.18%
Wine Tax	1.93	2.04	2.15	2.27	0.12%
Total Liquor Taxes	29.59	29.86	30.29	30.68	1.69%
TOBACCO TAXES					
Cigarette Tax	32.22	32.14	32.94	32.85	1.83%
Tobacco Products Tax	5.33	5.58	5.71	5.84	0.32%
Tobacco Settlement	3.47	4.12	4.13	4.14	0.23%
Total Tobacco Taxes	41.02	41.84	42.77	42.83	2.38%
SALES TAXES					
Telecommunications Excise Tax	23.52	23.49	23.88	24.28	1.34%
Institutional Reimbursements	22.00	17.81	16.95	17.15	0.95%
Accommodations Tax	12.33	13.93	14.89	16.05	0.86%
Health Care Facility Utilization Fees	5.30	5.37	5.29	5.21	0.29%
Rental Car Sales Tax	2.81	3.01	3.22	3.47	0.19%
Total Sales Taxes	65.96	63.61	64.23	66.16	3.62%
OTHER TAXES AND REVENUES					
Lottery Profits	10.63	11.60	11.20	11.92	0.64%
Highway Patrol Fines	4.65	4.60	4.61	4.66	0.26%
Investment Licenses and Permits	6.22	6.57	7.05	7.51	0.40%
Contractors' Gross Receipts Tax	6.97	5.43	4.40	4.44	0.25%
Driver's License Fee	4.18	3.90	4.39	4.19	0.24%
Rail Car Tax	2.58	2.03	2.07	2.05	0.11%
Other Revenue	35.45	32.42	29.45	30.17	1.65%
Total Other Taxes and Revenues	70.69	66.55	63.16	64.95	3.56%
TOTAL GENERAL FUND REVENUE	1,627.46	1,694.11	1,757.10	1,846.14	100.00%



GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

MAJOR REVENUE SECTION 3

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Individual Income Tax

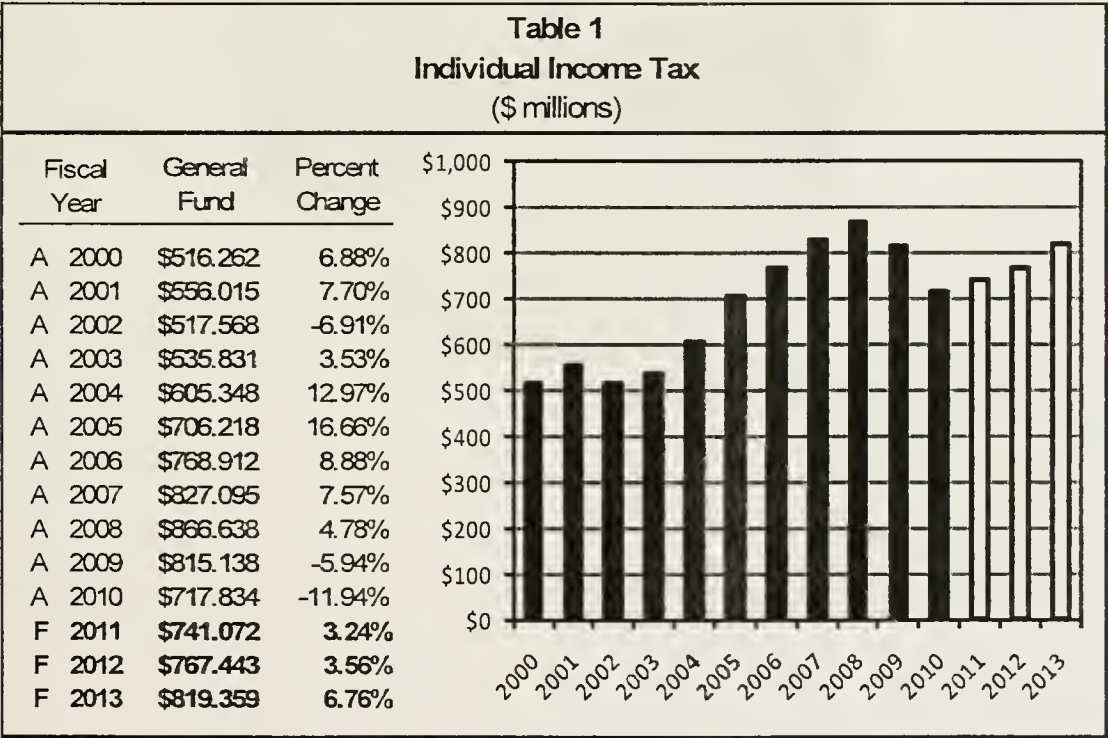
2013 Biennium

Revenue Description

Title 15, Chapter 30, MCA, imposes a graduated individual income tax ranging from 1% to 6.9% on gross income, less exemptions and deductions. Taxpayers' Montana adjusted gross income is based on their federal adjusted gross income, but may be higher or lower because some types of income are taxed differently by the state and federal government. Itemized deductions for federal and state income tax are similar; however, while all state income tax may be deducted in calculating federal taxable income, the amount of federal income tax that may be deducted in calculating state taxable income is limited. Montana also allows a number of credits that may reduce taxpayers' liabilities.

Individual income tax is the largest source of revenue to the general fund, accounting for 44.11% of total general fund revenue in FY 2010. With the exception of FY 2005, all individual income tax revenue is allocated to the general fund. In FY 2005, about \$1.1 million was allocated to pay for the Department of Revenue's new data processing system.

Table 1 shows actual individual income tax revenue for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013. Revenues are expected to increase gradually in FY 2012 through FY 2013. Although growth is expected, it is forecast to be relatively low. Personal income tax revenues are expected to remain lower than FY 2008 peak levels for the forecast period.



Risks and Significant Factors

- The estimate relies on the Global Insight forecasts for much of the data used in the model. If economic conditions change significantly over the next months, Global Insight's forecast will likely change as well.
- Due to the dependence of Montana adjusted gross income on Federal adjusted gross income, changes in the federal tax code could have a significant effect on Montana income tax receipts. With the makeup of congress changing in the midterm elections of 2010, federal tax changes for individual income taxes are probable. Holding all other factors constant, lower federal taxes result in higher state tax collections, while higher federal taxes reduce state tax collections. However the state's exposure to such fluctuations is somewhat limited due to the cap on deductible federal income tax expenditures.

Income by Category

Taxpayers report income on eleven lines on the tax return and these eleven income types are forecast separately. They can be organized into five general categories: wage, salary and tip income; ownership income; taxable retirement income; gains and losses; and interest income. Graph 1 shows these categories and their relative proportion of total taxable income.

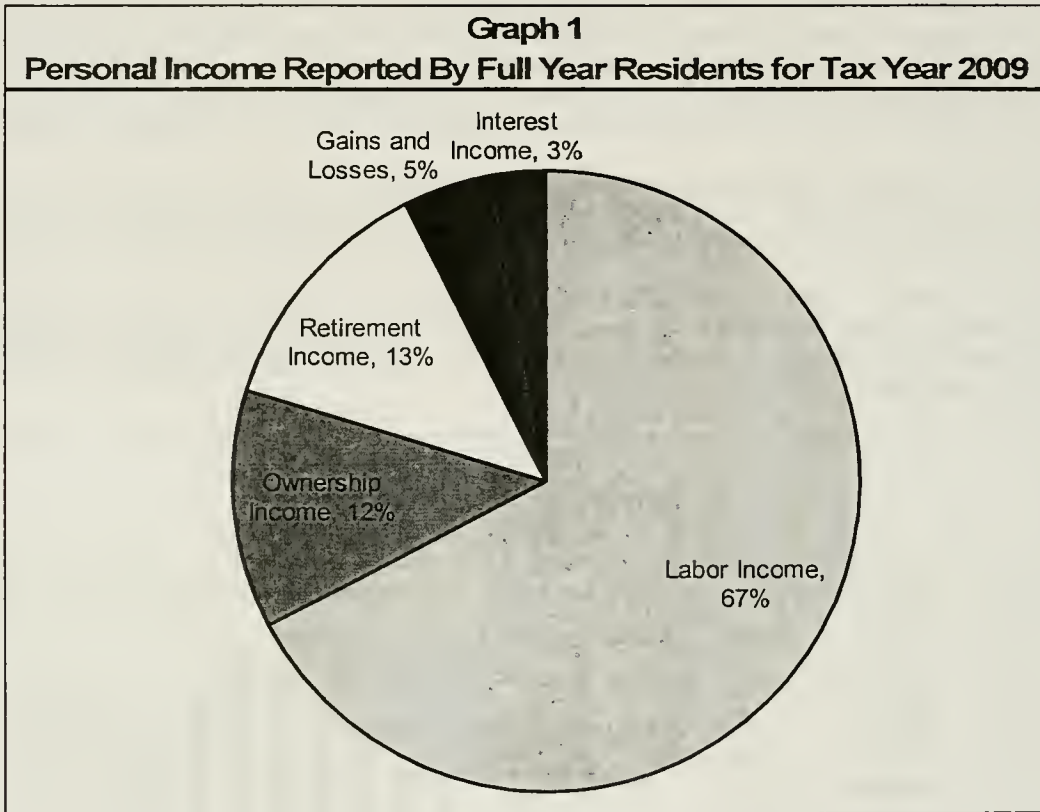
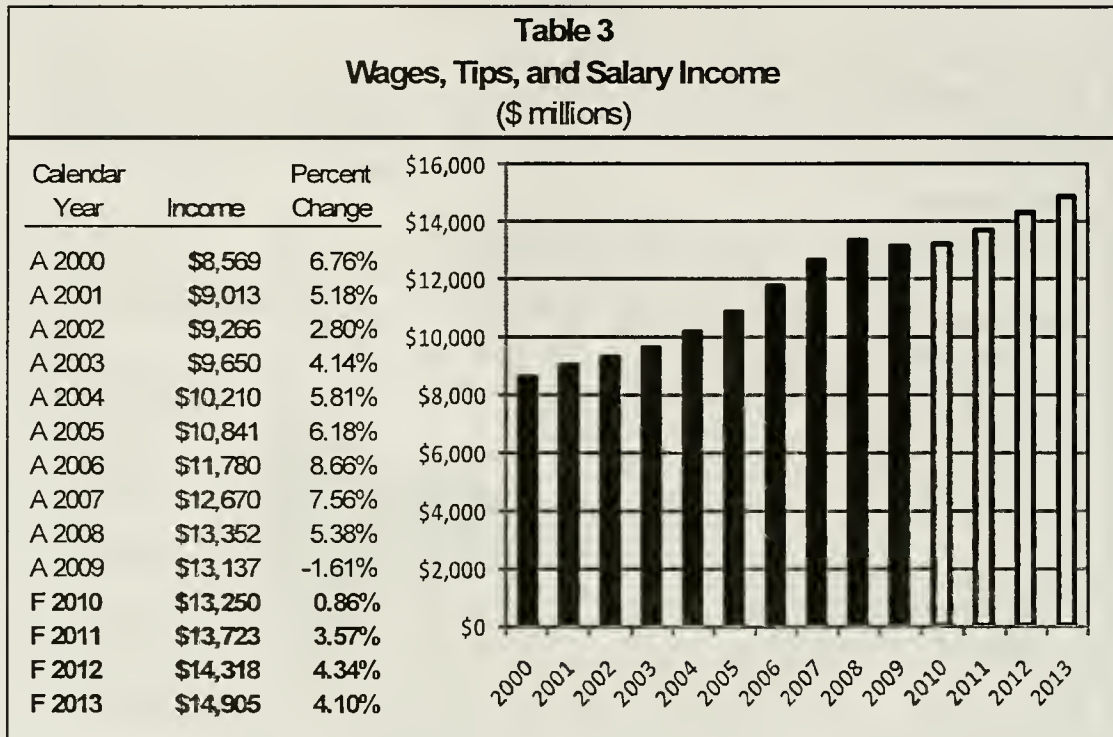


Table 2 provides more detail by showing the amount of income reported for CY 2009 by full-year residents and the percent of total reported income that category represents. The last column gives the average percent of total reported income for each category for the prior CY 1997 through CY 2007.

Table 2 Calendar Year Income (\$ millions)			
Type of Income	CY 2009 Income	% CY 2009 Income	% CY 97-07 Income
Labor Income			
Wages, salaries, tips, etc.	\$13,136.979	67.36%	63.49%
	\$13,136.979	67.36%	63.49%
Ownership Income			
Rents, royalties, partnerships, etc.	\$1,508.400	7.73%	7.87%
Net business income	\$648.187	3.32%	4.23%
Dividend income	\$462.423	2.37%	2.57%
Net farm income	-\$183.602	-0.94%	-0.86%
Other income	-\$24.924	-0.13%	-0.13%
	\$2,410.484	12.36%	13.68%
Retirement			
Taxable portion of Soc. Sec.	\$540.620	2.77%	2.02%
Taxable Pensions, IRAs	\$1,963.910	10.07%	8.80%
	\$2,504.530	12.84%	10.82%
Gains and Losses			
Capital gain or (loss)	\$912.041	4.68%	7.86%
Supplemental gains or (losses)	\$19.035	0.10%	0.35%
	\$931.076	4.77%	8.21%
Interest			
Interest income	\$519.760	2.67%	3.80%
	\$519.760	2.67%	3.80%
Total	\$19,502.829	100.00%	100.00%

Tables 3-11 show historical and forecast income for most of the sub-categories above. At the end of each table, the risks and significant factors for the forecast are listed. Forecast growth rates for the income sources, and deductions, reductions and credits are summarized in Table 12. All charts depict income reported by full-year residents.

Labor Income

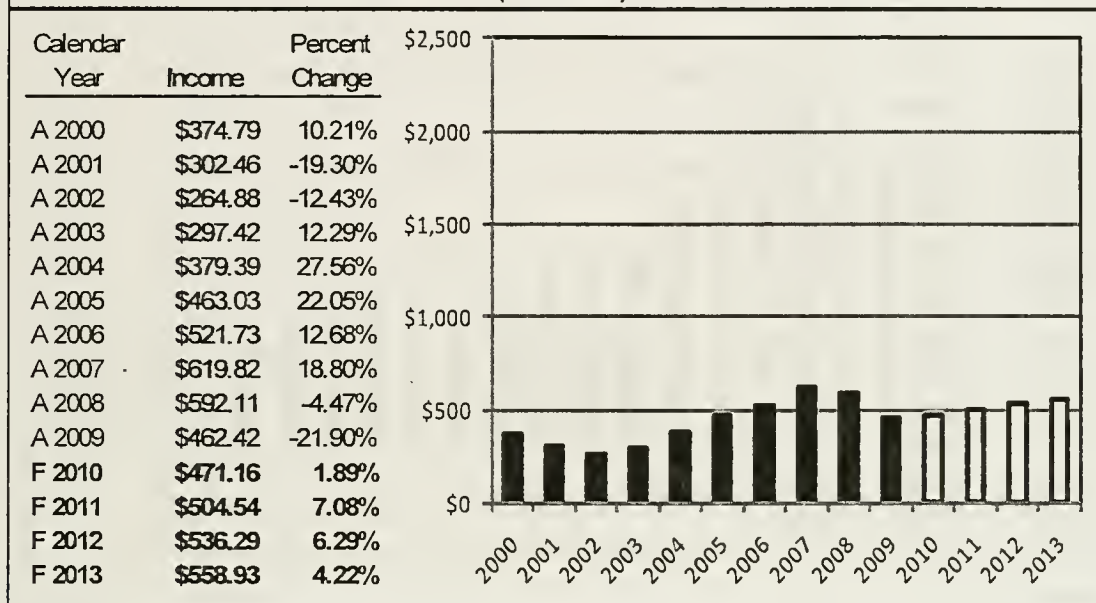


Risks and Significant Factors

- Projected increases are considerably lower than previous increases that occurred following less severe recessions.
- There may be more upside potential here.

Ownership Income

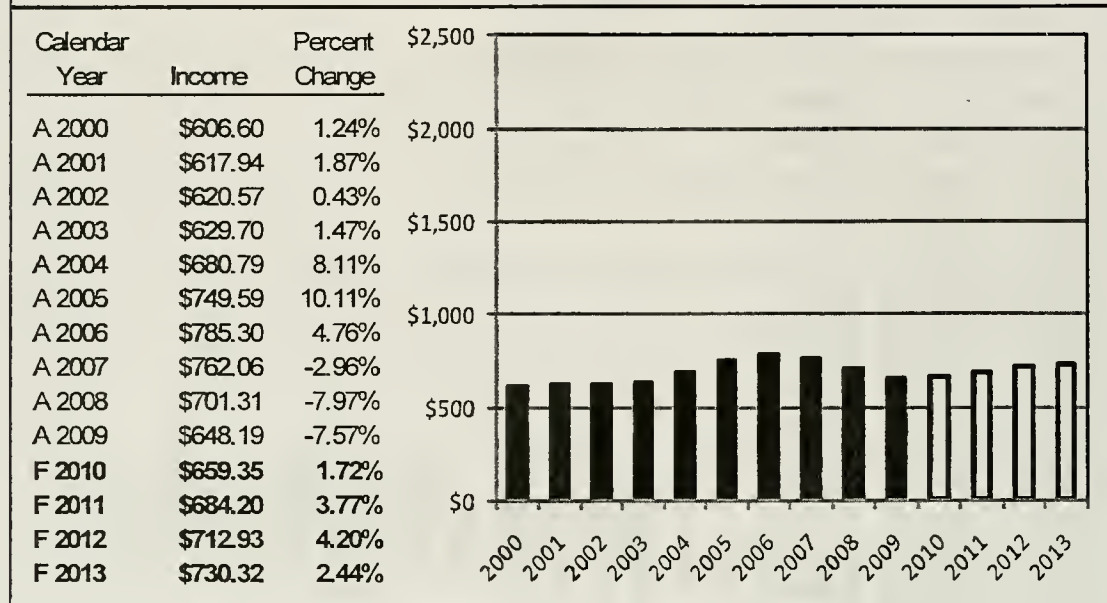
Table 4
Dividend Income
(\$ millions)



Significant Factors

- Montana dividend income is highly correlated with the national level of dividend income, and if corporate profits are significantly different than forecast, dividend income will be effected.
- After the economy began recovering from the recession, corporations began stockpiling cash reserves, as opposed to paying them out. If corporate attitudes in this regard change dramatically, this will potentially affect Montana dividend income.

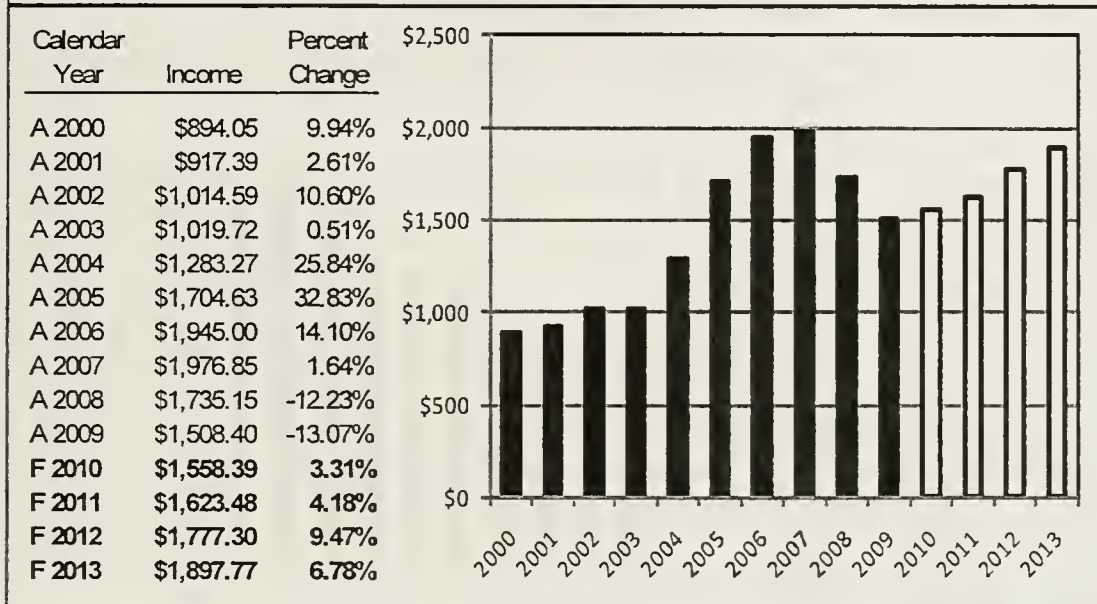
Table 5
Net Business Income
(\$ millions)



Significant Factors

- Growth rate of national proprietors' income will have an effect on Montana net business income.
- Montana net business income is highly correlated with its national equivalent, so a change in the national business income will have an effect on this source of income.

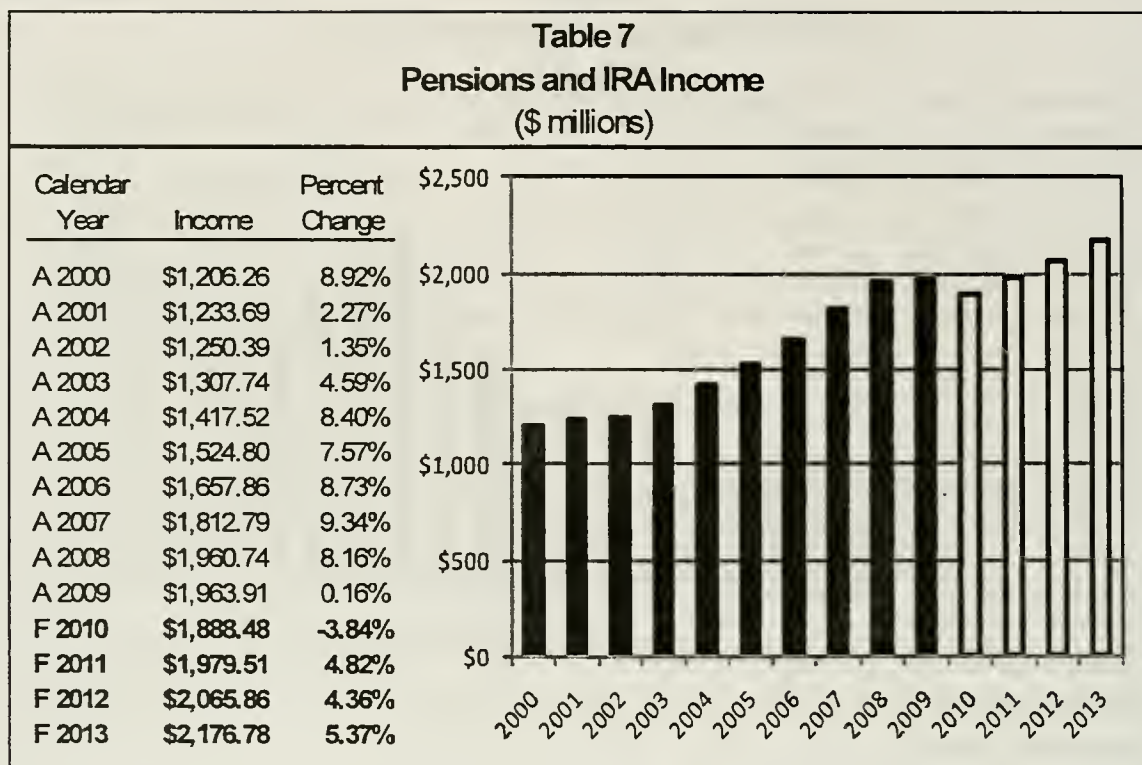
Table 6
Rents, Royalties, and Partnership Income
(\$ millions)



Risks and Significant Factors

- The growth rate of rents and royalties income shows a strong relationship with national proprietors' income. If the national economy's recovery is greater, or less than expected, this will likely have a direct effect on this income source.
- Mineral royalties have generally been reported in this category, and higher mineral, oil, and natural gas prices, as well as production have contributed to recent growth of income.
- By SB 439 (2007 session), withholdings are required for mineral royalty payments; this is likely to increase revenue because of increased compliance from non-resident mineral royalty owners.

Retirement income

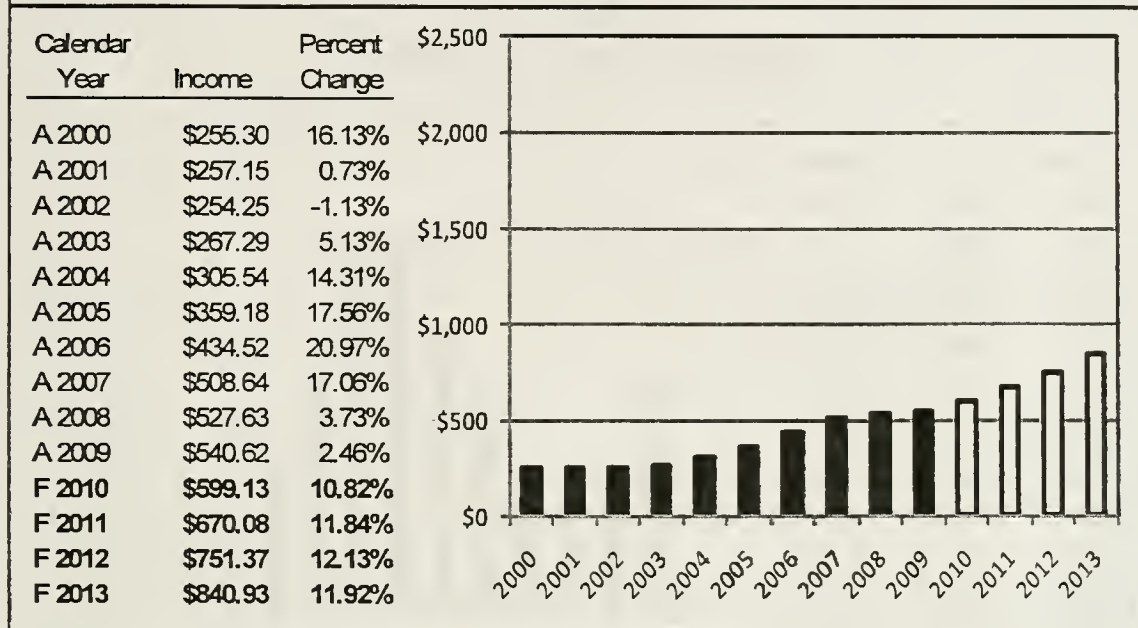


Risks and Significant Factors

- Prior years' S&P 500 stock price index can have an effect on pension and IRA income. As the stock market increases, returns from retirement savings, such as pensions and IRA's will also increase.
- Last year's U.S. gross domestic product is also used to forecast this source of revenue. As the economy grows, it is also estimated that this source of income will grow as well.

Growth of pension and IRA income slowed during the recession of 2000, but is predicted to decline in nominal terms for the first time in over ten years in CY 2010.

Table 8
Social Security Income
(\$ millions)

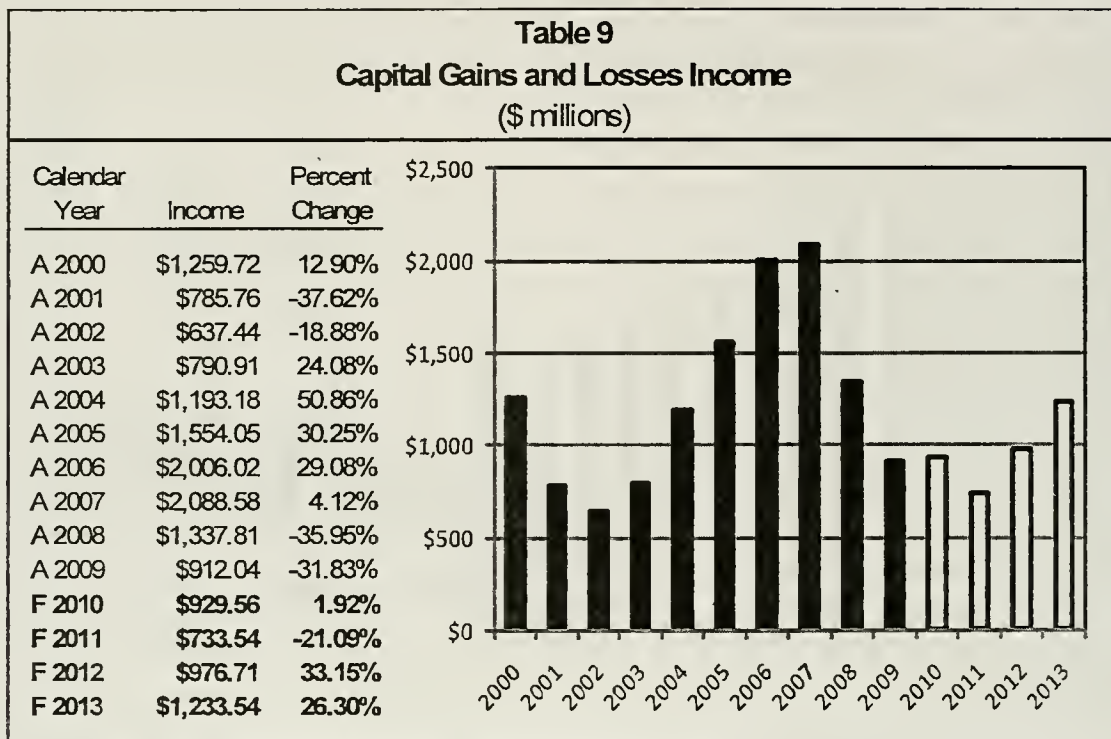


Risks and Significant Factors

- Social security is indexed for inflation. If inflation remains low, this will have a negative effect on the growth of social security income.
- Montana population age 65 and older effect the total amount of social security income. As the population of Montana 65 and older increases, total social security income will also increase.

Gains and Losses

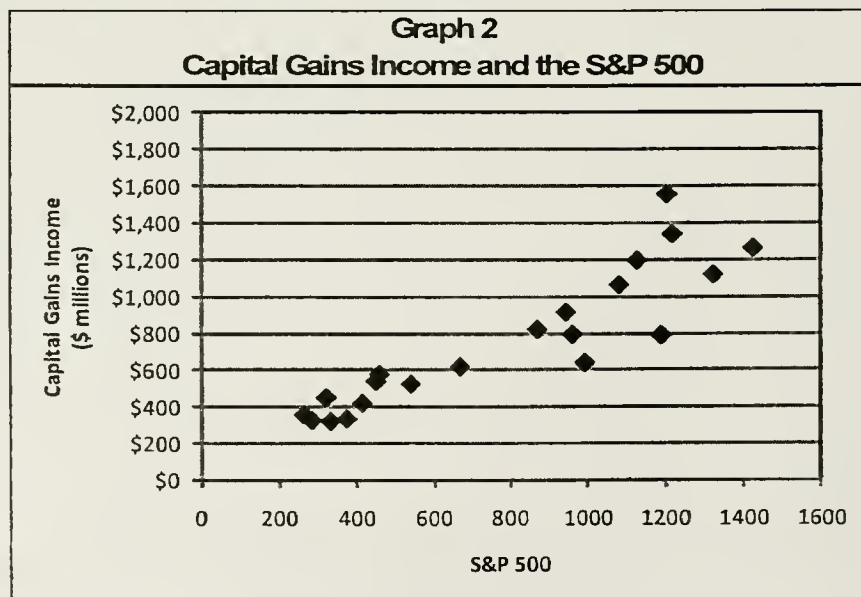
Capital gains and supplemental gains are gains or losses from the sale of assets.



Risks and Significant Factors

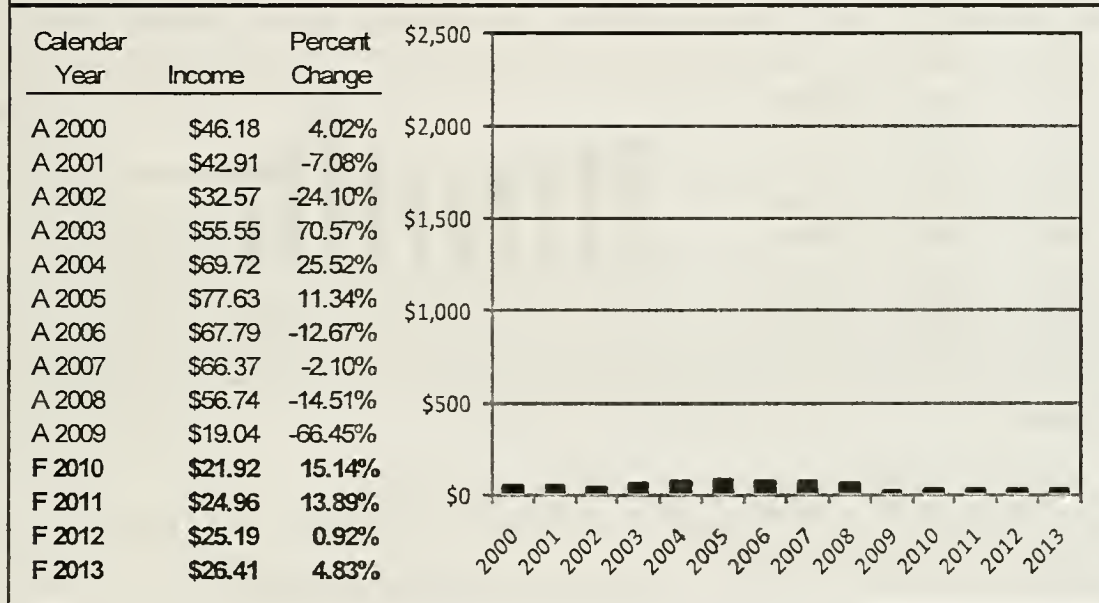
- Stock prices serve as a general indicator of the value of assets; only a portion of capital gains are from sales of stocks, but stocks are the only assets for which reliable price data is available.

In Table 9, note the decline in capital gains income following the stock market crash of CY 2000. The relationship between stock prices and capital gains is depicted in Graph 2:



The Jobs and Growth Tax Relief Reconciliation Act of 2003 included changes affecting long-term capital gains from sales on or after May 6, 2003, reducing the rates on many types of gains from asset sales. The legislation included language which sunset these lower capital gains rates in 2008 unless extended by Congress. In May 2006, Congress passed legislation extending the lower capital gains rates through 2010. In the past, people with assets that have appreciated have responded to changes in capital gains rates by selling assets to realize gains during periods when tax rates are lower. This is almost certain to have happened again, and part of the increase in capital gains in 2003 through 2005 reflects a one-time turnover of assets following the tax rate cuts in order to realize the gains. This phenomenon may be seen again with the possible expiration of the Bush tax cuts in tax year 2010.

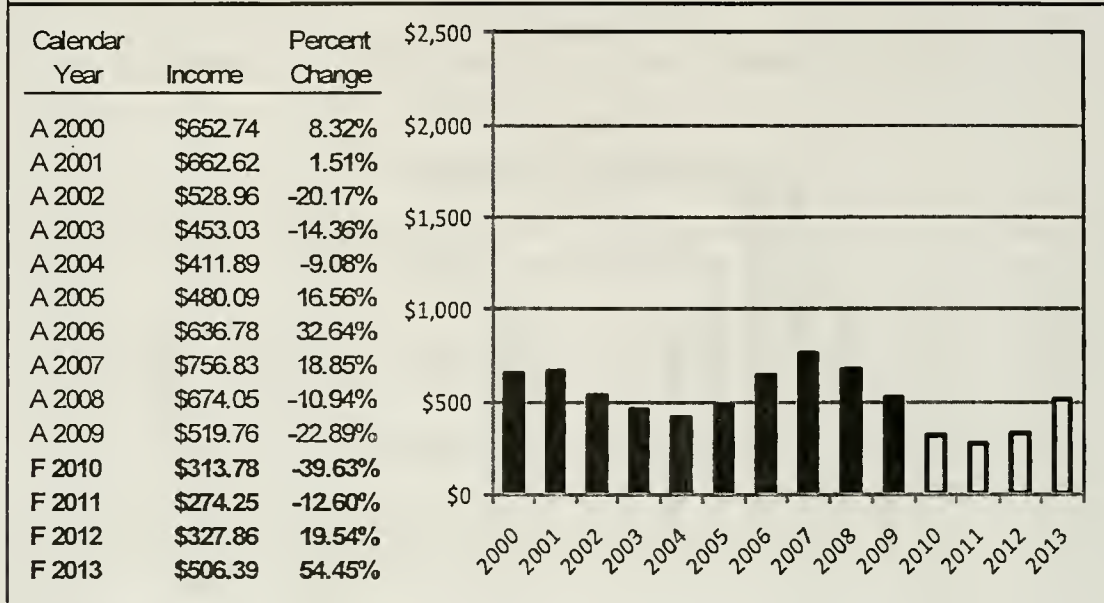
Table 10
Supplemental Gains Income
(\$ millions)



The swings in growth of supplemental gains income are tempered by the fact that it is small, contributing approximately one tenth of a percent of the overall income.

Interest Income

Table 11
Interest Income
(\$ millions)



Significant Factors

- Growth in taxpayers' savings rates will increase overall interest income.
- The current and last year's average rates on three-month certificates of deposits are used to forecast interest income for individual income tax revenue.
- Abnormally low interest rates will negatively affect the overall level of interest income.

Other Sources of Income

Net farm income has been negative in recent years and is expected to stay negative. It is projected using Global Insight's forecast for Montana's agricultural, forestry, and fishing gross state product.

The other income line is a catch-all for income that does not fit on the other lines. It is usually small and is forecast to grow at a rate based on historic trends.

Forecast Methodology

Income tax revenue estimates are based on a computer program that calculates tax liability for individual income tax returns. Base line assumptions are listed in Table 12.

Before program implementation

- Growth rates for income and deductions must be estimated
- Future tax parameters, such as rate brackets and caps on deductions, must be calculated based on forecasts of inflation and any changes in state or federal law

The operating program

- Reads each full-year resident return in the latest year's income tax returns database
- Calculates current year's tax liability for each return

- Applies an annual growth rate to each of the income and deduction line items and calculates the next year's tax liability
- Repeats process, growing income and deductions and calculating tax liability, for each year of the forecast period.

Once the simulation program has estimated future years' tax liability for full-year resident taxpayers who filed in the past year, adjustments are made to produce projected fiscal year collections for all filers.

Adjustments are made for

- Projected population growth
- Changes to state and federal tax law
- Calendar year tax liability and additional revenue from less than full-time residents
- Reduced revenue due to tax credits
- Conversion from calendar year to fiscal year collections
- Accounting for revenue from audits, penalties and interest not already included in the base calculations
- Other adjustments, such as additional refunds

Distribution

All individual income tax revenue is distributed to the general fund.

Data Sources

Revenue data is from SABHRS and the Department of Revenue. Estimated audit revenue for future years is from the Department of Revenue. Past employment and wage data is from the Bureau of Labor Statistics, U.S. Department of Labor. Commodity market estimates for future years is from the Economic Research Service, U.S. Department of Agriculture. Inflation estimates used in estimating certain future tax bracket and other tax data were from the Congressional Budget Office. Employment, wage, interest rates, and other economic data forecasts are from Global Insight's October 2010 forecast.

INCOME ITEMS	Actual				Actual				Actual				Forecast			
	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2010	CY 2011	CY 2012	CY 2013
Federal Adjusted Gross Income Items																
Wages, salaries, tips, etc.	2.80%	4.14%	5.81%	6.18%	8.66%	7.56%	5.39%	-1.61%	0.86%	3.57%	4.34%	4.10%	0.86%	3.57%	4.34%	4.10%
Interest income	-20.17%	-14.35%	-8.08%	16.56%	32.64%	18.85%	-10.94%	-22.89%	-39.63%	-12.60%	19.54%	54.45%	-39.63%	-12.60%	19.54%	54.45%
Dividend income	-12.43%	12.29%	27.56%	22.05%	12.68%	18.80%	-4.47%	-21.90%	1.89%	7.08%	6.29%	4.22%	1.89%	7.08%	6.29%	4.22%
Net business income	0.43%	1.47%	8.11%	10.11%	4.76%	-2.93%	-7.97%	-7.57%	1.72%	3.77%	4.20%	2.44%	1.72%	3.77%	4.20%	2.44%
Capital gain or (loss)	-18.88%	24.08%	50.66%	30.25%	29.08%	4.12%	-35.95%	-31.83%	1.92%	-21.09%	33.15%	26.30%	1.92%	-21.09%	33.15%	26.30%
Supplemental gains or (losses)	-24.10%	70.57%	25.52%	11.34%	-12.67%	-2.10%	-14.51%	-66.45%	15.14%	13.89%	0.92%	4.83%	15.14%	13.89%	0.92%	4.83%
Rents, royalties, partnerships, etc.	10.60%	0.51%	25.84%	32.83%	14.10%	1.64%	-12.23%	-13.07%	3.31%	4.18%	9.47%	6.78%	3.31%	4.18%	9.47%	6.78%
Taxable IRAs and pensions	1.35%	4.59%	8.40%	7.57%	8.73%	9.34%	8.16%	0.16%	-3.84%	4.82%	4.36%	5.37%	-3.84%	4.82%	4.36%	5.37%
Taxable portion of Soc. Sec.	-1.13%	5.13%	14.31%	17.56%	20.97%	17.03%	3.73%	2.46%	10.82%	11.84%	12.13%	11.92%	10.82%	11.84%	12.13%	11.92%
Net farm income	-39.66%	7.18%	4.51%	9.80%	39.87%	-11.44%	34.71%	-12.62%	-6.91%	2.18%	4.16%	4.52%	-6.91%	2.18%	4.16%	4.52%
Other income	6.45%	-20.05%	-7.02%	-3.32%	-30.63%	-479.53%	-98.59%	-1043.61%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Adjustments to income	23.21%	0.158871	7.28%	7.28%	5.74%	9.79%	-1.58%	-9.50%	22.76%	7.59%	7.59%	7.59%	22.76%	7.59%	7.59%	7.59%
ADDITIONS:																
Interest on state, county, bonds	-2.97%	4.01%	6.47%	-0.07%	50.43%	10.66%	18.17%	-2.30%	-21.49%	4.65%	3.08%	1.24%	-21.49%	4.65%	3.08%	1.24%
Federal income tax refunds	21.34%	3.88%	5.72%	-7.04%	-41.50%	-0.93%	-16.18%	0.26%	65.18%	2.52%	3.09%	2.96%	65.18%	2.52%	3.09%	2.96%
Other additions	2.63%	18.14%	15.70%	-25.27%	30.65%	-0.65%	-2.77%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
REDUCTIONS:																
Farm risk management account	0.00%	1309.10%	-98.89%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	-7.40%	-7.41%	-5.24%	4.97%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Exclusion for savings bonds	-30.61%	-20.93%	-7.70%	12.93%	37.46%	13.96%	-32.64%	-27.85%	41.80%	0.65%	7.57%	10.55%	41.80%	0.65%	7.57%	10.55%
Exempt pension income	2.98%	0.96%	0.96%	0.96%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Unemployment income	31.53%	9.50%	-21.39%	-16.24%	4.02%	7.12%	58.69%	70.24%	7.77%	-1.37%	-3.10%	-2.68%	7.77%	-1.37%	-3.10%	-2.68%
Medical savings account exd.	20.56%	14.70%	21.74%	3.43%	10.03%	5.36%	1.98%	3.04%	7.34%	6.84%	6.40%	6.02%	7.34%	6.84%	6.40%	6.02%
Family education account exd.	60.42%	20.15%	13.52%	-6.55%	7.60%	6.57%	-14.42%	-3.82%	9.41%	8.60%	7.92%	7.34%	9.41%	8.60%	7.92%	7.34%
First-time homebuyers acct. exd.	1.76%	14.94%	-18.84%	4.42%	-19.78%	-8.29%	-0.03%	31.90%	0.28%	0.28%	0.28%	0.28%	0.28%	0.28%	0.28%	0.28%
Loan Repayments Taxed to Health Care Prof.	NA	NA	-13.39%	-21.80%	-2.93%	2.37%	14.91%	25.84%	-17.50%	0.00%	0.00%	0.00%	-17.50%	0.00%	0.00%	0.00%
Other reductions	5.44%	6.83%	10.51%	12.06%	17.25%	9.15%	6.14%	14.37%	6.34%	6.34%	6.34%	6.34%	6.34%	6.34%	6.34%	6.34%

Table 12 (Cont.)

Historic and Projected Growth Rates for Line Items

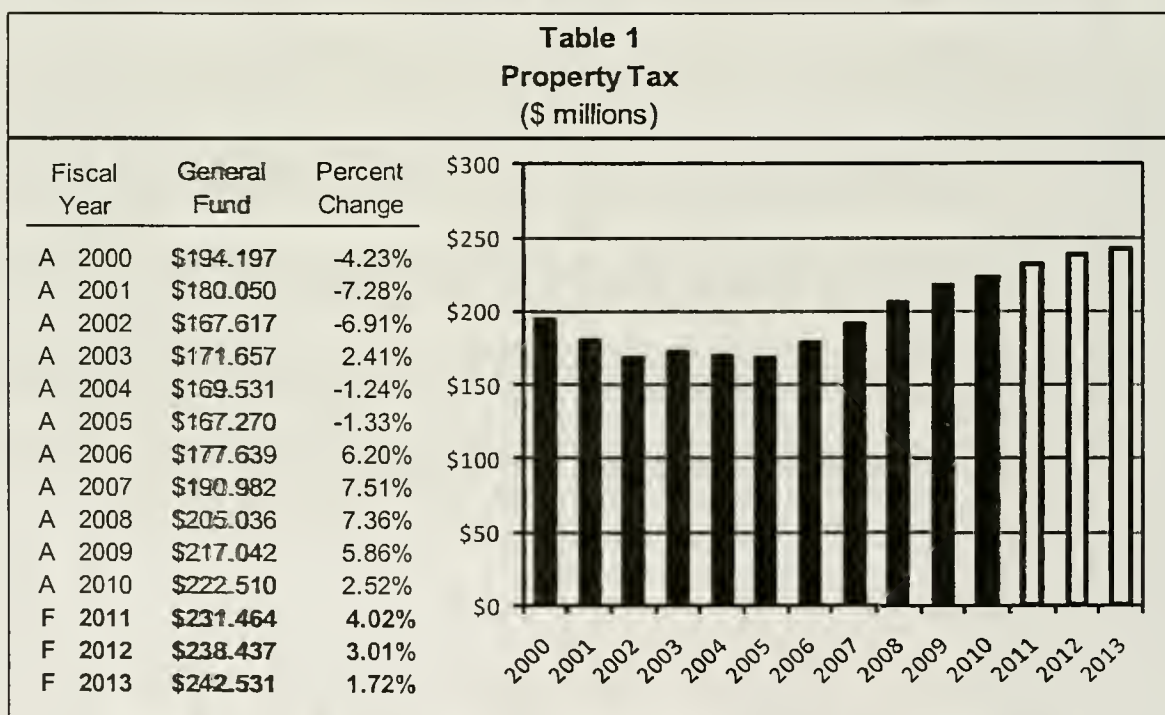
ITEMIZED DEDUCTIONS:	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
Medical insurance premiums	9.89%	-1.69%	7.25%	6.03%	11.55%	3.15%	4.47%	5.01%	6.53%	6.53%	6.53%	6.53%	6.53%	6.53%
Medical deduction	9.71%	6.12%	9.27%	5.73%	2.67%	4.87%	7.52%	-0.38%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Long-term care insurance	12.98%	8.86%	6.81%	3.63%	12.69%	13.92%	8.15%	-1.34%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%
Balance of federal tax	-21.55%	-5.09%	-11.00%	5.21%	86.93%	23.55%	6.19%	-22.36%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Additional federal tax	-31.92%	17.64%	0.55%	-20.23%	33.73%	6.00%	30.21%	63.08%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
Property taxes	10.65%	5.99%	7.44%	0.05%	7.46%	4.34%	5.78%	3.33%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%
Motor veh. and other deductible taxes	11.63%	3.00%	10.16%	26.69%	-0.40%	-20.46%	0.98%	2.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Home mortgage interest	4.15%	-1.05%	4.24%	9.81%	15.61%	14.52%	2.05%	-3.14%	6.08%	6.08%	6.08%	6.08%	6.08%	6.08%
Deductible investment interest	-22.57%	-12.23%	12.34%	38.17%	42.27%	9.89%	-16.98%	-36.50%	11.95%	7.50%	13.26%	9.99%	9.99%	9.99%
Contributions	13.05%	-2.26%	11.23%	6.55%	3.77%	41.75%	-19.22%	-3.84%	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%
Child/dependent care expenses	1.57%	2.18%	-9.36%	-3.22%	-6.91%	5.73%	-6.06%	15.80%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%	-0.11%
Casualty and theft losses	41.33%	-8.03%	-11.86%	23.74%	64.67%	-36.59%	19.05%	24.08%	8.49%	8.49%	8.49%	8.49%	8.49%	8.49%
Tier I - Miscellaneous	3.81%	0.45%	9.13%	8.53%	53.45%	10.58%	-27.62%	-10.62%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
Tier II - Miscellaneous	13.45%	67.50%	-31.04%	7.25%	46.57%	-40.36%	48.64%	115.45%	18.85%	18.85%	18.85%	18.85%	18.85%	18.85%
Gambling Losses	0.14%	-3.55%	22.97%	28.25%	7.39%	12.62%	22.68%	-0.19%	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
CREDITS														
Capital gains tax credit	0.00%	0.00%	0.00%	0.00%	27.58%	104.22%	-34.65%	-31.27%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Elderly homeowner/renter tax credit	0.00%	0.00%	0.00%	0.00%	-4.73%	1.43%	8.74%	2.58%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Physician credit for rural practice	42.80%	-16.52%	-0.54%	-25.07%	-17.20%	10.34%	-30.49%	-43.66%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
College contribution credit	0.55%	-10.76%	15.78%	20.35%	19.16%	-3.03%	-5.79%	5.31%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Charitable endowment credit	-78.27%	32.75%	17.02%	-0.45%	27.03%	-11.94%	-31.14%	-9.00%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Elderly care credit	-57.21%	-23.47%	32.65%	97.98%	-3.19%	-6.60%	-3.88%	-6.18%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Other state/foreign tax credit	3.75%	3.33%	20.22%	8.31%	22.22%	-12.00%	3.22%	-18.90%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Contractor's gross receipts credit	-5.61%	26.66%	3.63%	27.24%	61.85%	7.13%	-2.10%	53.94%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Investment credit	-63.15%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Alternative energy systems credit	467.97%	31.63%	48.41%	43.61%	5.76%	5.16%	40.07%	30.59%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Energy conservation credit	548.21%	86.93%	26.94%	81.49%	41.07%	1.99%	-2.93%	27.31%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Alternative energy production credit	313.42%	-16.06%	51.98%	-34.70%	88.08%	92.31%	-79.27%	297.91%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Recycling credit	-34.98%	82.78%	153.63%	33.52%	84.40%	-49.03%	36.72%	-16.79%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Alternative fuels credit	202.50%	-100.00%	0.00%	0.00%	-24.42%	31.97%	8.66%	39.31%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Montana capital company credit	-6.30%	-100.00%	0.00%	0.00%	-48.98%	-40.00%	-100.00%	0.00%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Dependent care assistance credit	624.35%	117.71%	-28.83%	42.04%	10.63%	37.67%	79.57%	-67.78%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Employee health insurance credit	-34.72%	124.83%	211.11%	20.97%	8.11%	-6.00%	-21.22%	-28.88%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Infrastructure users fee credit	0.00%	0.00%	0.00%	0.00%	-8.65%	-96.88%	24.93%	-8.80%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Historic building preservation credit	3.89%	-76.18%	448.84%	-47.52%	291.19%	11.02%	-73.02%	123.81%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Developmental disability account credit	0.00%	0.00%	0.00%	158.57%	-63.17%	811.00%	-100.00%	0.00%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Empowerment zone credit	0.00%	0.00%	0.00%	165.48%	1675.13%	-97.09%	-100.00%	0.00%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Insure Montana small business health ins credit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%
Other Credits	0.00%	0.00%	0.00%	0.00%	0.00%	19.49%	8.70%	5.59%	18.14%	6.57%	6.57%	6.57%	6.57%	6.57%

Revenue Description

Title 15, Chapter 6, Part 1, MCA, identifies the classes of property subject to taxation and the applicable tax rate. Property tax revenue is collected directly from mills levied on property, and indirectly from non-levy revenue sources. Non-levy revenues are shared with local taxing jurisdictions based on the proportion of state to local mills levied in the respective taxing jurisdictions (coal gross proceeds and federal forest receipts). The state general fund receives property tax revenue from statewide levies for: elementary school BASE funding of 33 mills (20-9-331, MCA), high school BASE funding of 22 mills (20-9-333, MCA), and the 40 mill state equalization aid levy (20-9-360, MCA), commonly referred to collectively as the 95 mill levy. In addition there is a 1.5 mill levy on property in counties with colleges of technology (20-25-439, MCA).

TY 2009 (FY 2010) was the first year of a new six-year periodic revaluation cycle for agricultural land (class 3 property), commercial and residential real property (class 4 property), and forest land (class 10 property). All other property is assessed annually. The increment in market value, due solely to reappraisal, is added to the tax rolls in one-sixth increments (phased-in) each year (15-7-11, MCA), all other value changes (up or down) are applied in the first year of the new appraisal cycle. HB 658 (2009 session) raised exemptions and lowered tax rates, progressively throughout the cycle, to accommodate this increase due to reappraisal.

Table 1 shows general fund property tax collections for FY 2000 through FY 2010 and forecast revenue for FY 2011, FY 2012, and FY 2013.



Risks and Significant Factors

- Property tax appeal processes and property tax assistance programs may lower revenue more than anticipated.
- Litigation challenging the implementation of reappraisal and protested property taxes could lower collections.
- Unanticipated growth in tax increment financing districts (TIFs) could lower state, schools, and local jurisdiction property tax collections.

- Property taxes constitute the largest statewide tax source – the state, local governments, schools and special districts collected over \$1.181 billion in property taxes and fees in TY 2009 (FY 2010).
- The expiration of the Secure Rural Schools and Communities Act in FY 2013 lowers state non-levy revenue by \$3.8 million as payments revert to federal forest reserve payments.
- The misclassification of non-levy revenues on county collection reports leads to inconsistencies in the allocation of these revenues in the state accounting system (SABHRS) accounts.

Estimate Summary

The presentation of this forecast starts with a summary estimate of general fund property tax revenue, non-levy revenue and adjustments for the class 4 extended property tax assistance program (EPTAP) and centrally assessed protested property taxes that accrue to the state (Table 2). The summary is followed by a step-by-step presentation of methodology.

Table 2 Summary of General Fund Property Tax Revenue (\$ millions)				
	Actual FY 2010	_____ FY 2011	Forecast FY 2012	_____ FY 2013
Property Tax - 95 Mill Levy	\$210.211	\$219.448	\$226.954	\$235.239
Property Tax - 1.5 Mill Levy	\$1.096	\$1.115	\$1.163	\$1.205
Protested Property Taxes	(\$1.183)	(\$1.183)	(\$1.183)	(\$1.183)
Adjustment for EPTAP	(\$0.134)	(\$0.192)	(\$0.227)	(\$0.236)
Net Property Mill Levy Revenue	\$209.990	\$219.189	\$226.707	\$235.025
Non-Levy Revenue:				
Coal Gross Proceeds	\$6.741	\$6.580	\$6.522	\$6.065
Federal Forest Reserves	\$4.986	\$4.891	\$4.403	\$0.636
All other (by residual FY 2010)	\$0.793	\$0.805	\$0.805	\$0.805
Subtotal Non-Levy Revenue	\$12.519	\$12.276	\$11.730	\$7.506
Total Property Tax Revenue	\$222.510	\$231.464	\$238.437	\$242.531

Forecast Methodology

The property tax forecast is built by estimating growth rates for tax year (TY) assessed market value by property class and converting the assessed market value into taxable value by applying statutory tax rates and exemptions. This method minimizes the need for adjustments for local property tax abatements. Adjustments are made for tax increment financing districts, which do not pay equalization, elementary, and high school mill levies to the state. Revenue accruing to the state is then estimated for the fiscal year of receipt. A separate forecast is made for each non-levy revenue source. These estimates are summed to form the general fund property tax revenue estimate.

There are six main steps followed to calculate the property tax revenue generated from the 95 mill levy and the 1.5 mill levy:

Step 1. Estimate the growth rate for the assessed value of each class of property.

Historical trends in valuation are generally used as the foundation for estimating future property value growth; adjustments are made for major new investments and the effects of known changes in tax rates or valuation. Growth rates are determined independently for each class of property.

Table 3 is a summary of assessed market value and market value growth for all property classes except 3 (agricultural land), 4 (residential and commercial real property), 10 (forest property), 15 (qualifying CO₂ sequestration and liquids pipelines) and 16 (qualifying high-voltage direct current converter property). Classes 3, 4 and 10 will be presented in

the section on cyclically reappraised property to address phase-in of market value, underlying real growth, changes in exemptions and tax rates in greater detail following the summary of all other classes of property. New tax class 15 has been assigned no value or growth during the forecast period as the creation any new property in this class is currently unknown. New class 16 may include some value entering the class in TY 2012 with the initiation of the Montana Alberta Tie-Line (MATL). If the MATL property does not qualify under class 16, this same property would qualify as class 14 at a slightly higher tax rate (raising general fund revenue by \$32,000).

Table 3
Summary of Assessed Market Value
(\$ millions)

	Class 1 Net Proceeds		Class 2 Gross Proceeds		Class 5 Rural Co-Op & Pollution Control		Class 7 Locally Assessed Utilities		Class 8 Business Equipment	
Tax Year	Adjusted Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change
A 2000			\$8.461	2.2%			\$1.948	-91.7%	\$3,727.546	11.5%
A 2001	\$2.129		\$11.015	30.2%			\$2.363	21.3%	\$3,943.691	5.8%
A 2002	\$3.903	83.3%	\$10.669	-3.1%	\$1,180.182		\$2.705	14.5%	\$4,012.213	1.7%
A 2003	\$3.071	-21.3%	\$8.800	-17.5%	\$1,090.984	-7.6%	\$12.439	359.8%	\$3,995.585	-0.4%
A 2004	\$2.974	-3.2%	\$10.428	18.5%	\$1,134.277	4.0%	\$12.179	-2.1%	\$3,989.982	-0.1%
A 2005	\$2.694	-9.4%	\$19.265	84.7%	\$1,154.284	1.8%	\$11.918	-2.1%	\$4,184.891	4.9%
A 2006	\$3.252	20.7%	\$21.106	9.6%	\$1,170.571	1.4%	\$13.354	12.1%	\$4,643.968	11.0%
A 2007	\$3.840	18.1%	\$28.347	34.3%	\$1,181.927	1.0%	\$13.698	2.6%	\$4,981.371	7.3%
A 2008	\$4.013	4.5%	\$34.858	23.0%	\$1,170.260	-1.0%	\$15.179	10.8%	\$5,685.496	14.1%
A 2009	\$4.002	-0.3%	\$31.019	-11.0%	\$1,251.525	6.9%	\$15.822	4.2%	\$5,822.852	2.4%
A 2010	\$3.181	-20.5%	\$18.291	-41.0%	\$1,299.811	3.9%	\$16.229	2.6%	\$6,276.622	7.8%
F 2011	\$3.233	1.6%	\$28.347	55.0%	\$1,404.811	8.1%	\$16.858	3.9%	\$6,574.435	4.7%
F 2012	\$3.285	1.6%	\$30.255	6.7%	\$1,457.311	3.7%	\$17.511	3.9%	\$6,887.139	4.8%
F 2013	\$3.337	1.6%	\$33.396	10.4%	\$1,509.811	3.6%	\$18.189	3.9%	\$7,215.478	4.8%
	Class 9 Pipelines & Electricity Transmission		Class 12 Airlines & Railroads		Class 13 Telecommunication & Electrical Generation		Class 14 Renewable Energy Production & Transmission		Class 16 High Voltage DC Converter Property	
Tax Year	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change
A 2000	\$1,938.782	-0.1%								
A 2001	\$1,719.851	-11.3%								
A 2002	\$1,767.717	2.8%	\$1,161.405		\$2,286.414					
A 2003	\$1,833.334	3.7%	\$1,176.038	1.3%	\$2,041.207	-10.7%				
A 2004	\$1,990.999	8.6%	\$1,183.046	0.6%	\$2,008.084	-1.6%				
A 2005	\$2,070.805	4.0%	\$1,183.616	0.0%	\$2,048.766	2.0%				
A 2006	\$2,204.148	6.4%	\$1,171.178	-1.1%	\$2,354.749	14.9%	\$170.379			
A 2007	\$2,204.148	0.0%	\$1,221.693	4.3%	\$2,550.499	8.3%	\$172.664	1.3%		
A 2008	\$2,193.812	-0.5%	\$1,246.504	2.0%	\$2,583.395	1.3%	\$196.252	13.7%		
A 2009	\$2,120.180	-3.4%	\$1,359.438	9.1%	\$2,578.848	-0.2%	\$434.939	121.6%		
A 2010	\$2,338.609	10.3%	\$1,524.594	12.1%	\$2,904.257	12.6%	\$596.308	37.1%		
F 2011	\$2,434.004	4.1%	\$1,542.669	1.2%	\$3,019.661	4.0%	\$803.287	34.7%		
F 2012	\$2,597.339	6.7%	\$1,560.958	1.2%	\$3,139.650	4.0%	\$934.542	16.3%	\$71.166	
F 2013	\$2,859.287	10.1%	\$1,579.463	1.2%	\$3,264.408	4.0%	\$1,205.886	29.0%	\$72.945	2.5%

Of note in Table 3:

- **Class 1**, net proceeds of all mines (except metal mines and bentonite) assessed value is highly dependent on construction; value dropped in TY 2010 but is expected to recover at its long-run growth rate from the low TY 2010 base. The series presented is adjusted for the removal of bentonite from the class in TY 2005.
- The forecast for **Class 2**, net proceeds of metal mines, is based on the Global Insight projection for the producer price for metals and a return to trend levels of production as suspended mining operations resume at an existing mine. Metal mines property taxes are based on the prior calendar year's production value.
- Two new gas power plants are expected to be added to the tax rolls in the forecast period in **Class 5**.
- **Class 8** growth is based on underlying property value growth after adjusting for large one-time investments.
- **Class 9** property includes one-half of the Montana Alberta Tie-Line (MATL) starting in TY 2012 and anticipated pipeline expansions.
- **Class 13** fully incorporates the Mill Creek power plant in TY 2011.
- **Class 14**, (formerly wind generation property) is expanding rapidly. The forecast is based on an assessment of recent growth and reports of new projects that have broken ground.
- New **Class 16** includes the 50% of the MATL that is likely to qualify in the class. It is assumed that this value goes on the property tax rolls in TY 2012.

Step 2. Estimate the growth of classes of property subject to reappraisal (classes 3, 4 and 10).

For classes 3, 4 and 10, growth is derived by calculating the interaction of long-run trends new property growth, estimated future (annual) reappraisal increments (phase-in), the effects of declining tax rates, and progressively increasing "homestead" and "comstead" exemption rates. The Class 3 and Class 4 property receive the same tax rate which declines each year of the reappraisal cycle.

Class 3 – Agricultural Land

Agricultural land is assessed base on the productive value of the property instead of market value. Table 4 presents the estimate of class 3 productivity value and the resulting taxable value growth. The base growth rate of agricultural property is assumed to be negative 0.15 % during the forecast period. The negative growth rate is appropriate as property is converted to commercial and residential parcels over time. Due to reappraisal, the assessed value grows by a phase-in increment in addition to base growth. Reduction in tax rates offset the reappraisal increment. Negative growth and declining tax rates result in a falling taxable value in each subsequent year of the reappraisal cycle. The applicable tax for agricultural rate is higher than the statutory rate because small agricultural parcels that do not meet and income threshold receive a higher tax rate as non-qualified agricultural land.

Table 4 Class 3 Agricultural Land (\$ millions)			
	TY 2010	TY 2011	TY 2012
Productivity Value	\$5,160.919	\$5,195.642	\$5,230.313
Statutory Tax Rate	2.82%	2.72%	2.63%
<i>(Applicable tax rate)</i>	2.98%	2.87%	2.78%
Total Taxable Value	<u>\$153.566</u>	<u>\$149.117</u>	<u>\$145.145</u>
Base Growth		-0.15%	-0.15%
Taxable Value Percent Change	-4.7%	-2.9%	-2.7%

Class 4 – Residential and Commercial Real Property

Because exemptions for commercial and residential property are different for each subclass; estimates of taxable value growth are presented separately for residential, multi-family commercial property and commercial property, as they each receive different exemptions (multi-family commercial property receives the residential "homestead" exemption). The presentation starts with residential property.

Class 4 Residential Real Property

Table 5 presents the forecast of taxable value for residential class 4 property. The forecast is based on underlying residential property growth of 2.0% in TY 2011, 2.5% in TY 2012. Due to reappraisal, the market value of this property grows by a phase-in reappraisal increment each year, the increase in the homestead exemption and the reduction in the tax rate offset this change in taxable value due to reappraisal.

Table 5 Class 4 Residential Real Property (\$ millions)			
	TY 2010	TY 2011	TY 2012
Market Value	\$61,372.661	\$68,008.063	\$75,142.724
Homestead Rate	39.5%	41.8%	44.0%
Taxable Market Value	\$37,130.460	\$39,580.693	\$42,079.925
Tax Rate	2.82%	2.72%	2.63%
Taxable Value	\$1,047.079	\$1,076.595	\$1,106.702
Minus PTAP/DAV Reductions	(\$13.734)	(\$13.734)	(\$13.734)
Total Taxable Value	\$1,033.345	\$1,062.861	\$1,092.968
Base Growth		2.0%	2.5%
Taxable Value Percent Change	1.9%	2.9%	2.8%

An adjustment is made for the reduction in taxable value due to the Property Tax Assistance Program (PTAP) and Disabled American Veterans (DAV) property tax assistance programs, as these programs reduce taxable value by reducing the standard tax rate for qualifying residential properties. The revenue effects of these programs, unlike local property tax abatements, reduce state mill collections.

Class 4 Multi-family Commercial Real Property

Table 6 displays the calculation of taxable value and the growth rate for commercial multi-family property. The base growth rate of this property is assumed to grow by 0.5% per year from a TY 2011 estimate of 2.0% during the forecast period. Due to reappraisal, the market value of property grows by a phase-in reappraisal increment of approximately \$189 million per year. The increasing "homestead" exemption rate and the phase-down of the tax rate offsets the reappraisal increment. The two factors combined result in a slow growth in taxable value in each subsequent year of the reappraisal cycle.

Table 6 Class 4 (Commercial) Multi-family (\$ millions)			
	TY 2010	TY 2011	TY 2012
Market Value	\$2,597.068	\$2,841.971	\$3,106.927
Homestead Rate	39.5%	41.8%	44.0%
Taxable Market Value	\$1,571.226	\$1,654.027	\$1,739.879
Tax Rate	2.82%	2.72%	2.63%
Taxable Value	\$44.309	\$44.990	\$45.759
Base Growth		2.0%	2.5%
Taxable Value Percent Change	-1.0%	1.5%	1.7%

Class 4 Commercial Real Property

Table 7 presents the development of taxable value on commercial real property. The based growth rate for this property is assumed to be 2.0% in TY 2011 and 2.5% in TY 2012 during the forecast period. Due to reappraisal, the market value of property grows by a phase-in reappraisal increment of nearly \$1,152 million per year. The "comstead" exemption grows each year coupled and with declining tax rates, offset most of the reappraisal growth.

Table 7 Class 4 Commercial Real Property (\$ millions)			
	TY 2010	TY 2011	TY 2012
Market Value	\$13,521.318	\$14,966.971	\$16,522.132
Comstead Rate	15.9%	17.5%	19.0%
<u>Taxable</u> Market Value	\$11,371.428	\$12,347.751	\$13,382.927
Tax Rate	2.82%	2.72%	2.63%
Taxable Value	\$320.674	\$335.859	\$351.971
Base Growth		2.0%	2.5%
Taxable Value Percent Change	2.5%	4.7%	4.8%

Class 10 Forest Land

Forest land, like agricultural, land is assessed based on its productivity value. Table 8 presents the estimate of class 10 growth. The base growth rate of forest land is assumed to be negative 0.80% during the forecast period as the value of Class 10 property is reduced when land is converted to commercial and residential parcels. Due to reappraisal, the assessed value grows by a phase-in reappraisal increment of nearly \$40 million per year. The reduction in tax rates offsets the reappraisal increment. Negative growth and declining tax rates reduce taxable value in each subsequent year of the forecast period.

Table 8 Class 10 Forest Land (\$ millions)			
	TY 2010	TY 2011	TY 2012
Productivity Value	\$1,987.606	\$2,011.085	\$2,034.377
Tax Rate	0.33%	0.32%	0.31%
Taxable Value	\$6.519	\$6.435	\$6.307
Base Growth		-0.8%	-0.8%
Taxable Value Growth	-6.7%	-1.3%	-2.0%

Step 3. Determine the tax rate for each class of property.

As stated previously, tax rates for each class of property are set in statute. However, classes 3 and 4 have special rates which apply to sub-categories of property. In class 3, parcels of agricultural land that are less than 160 acres in size that do not generate at least \$1,500 in agricultural production per year are considered "non-qualified agricultural land" and have a tax rate seven times the standard class 3 rate. Because the non-qualified agriculture tax rate is higher than the standard class 3 tax rate, the applicable tax rate is higher than the standard tax rate. The prior year's ratio of effective to statutory rate is used to forecast the average tax rate (as can be seen in Table 5).

In class 4, residential properties of individuals who meet statutory residence, income, and qualifying conditions, receive reduced tax rates (property tax assistance programs, disabled American veterans programs, and extended property tax assistance programs). Some commercial properties are taxed at a lower than standard rate – examples are properties that receive new and expanding industry property (local) abatements, and commercial golf courses (lower statutory

class 4 rate). Table 9 summarizes standard statutory property tax rates for TY 2009 through TY 2012 for all classes of property. The table illustrates that class 3, 4, 10 and 12 properties have changing tax rates.

Table 9 Statutory Tax Rates by Class of Property															
Tax Year	Class 1 Mine Net Proceeds	Class 2 Mine Gross Proceeds	Class 3 Agric. Land ¹	Class 4 Residential & Commercial Property	Class 5 Co-op & Pollution Control	Class 7 Locally Assessed Utilities	Class 8 Business Equipment	Class 9 Pipelines, & NonGenerating Utility Prop.	Class 10 Forest Land	Class 12 Airlines & Railroads ²	Class 13 Telecomm & Electrical Generation	Class 14 Renewable Energy & Transmission	Class 15 CO ₂ & Cert. Liquid Pipeline	Class 16 High Voltage DC	
2009	3.00%	3.00%	2.93%	2.93%	3.00%	8.00%	3.00%	12.00%	0.34%	3.45%	6.00%	3.00%	3.00%	2.25%	
2010	3.00%	3.00%	2.82%	2.82%	3.00%	8.00%	3.00%	12.00%	0.33%	3.40%	6.00%	3.00%	3.00%	2.25%	
2011	3.00%	3.00%	2.72%	2.72%	3.00%	8.00%	3.00%	12.00%	0.32%	3.42%	6.00%	3.00%	3.00%	2.25%	
2012	3.00%	3.00%	2.63%	2.63%	3.00%	8.00%	3.00%	12.00%	0.31%	3.34%	6.00%	3.00%	3.00%	2.25%	
2013	3.00%	3.00%	2.54%	2.54%	3.00%	8.00%	3.00%	12.00%	0.30%	3.29%	6.00%	3.00%	3.00%	2.25%	

¹ Actual rate is higher due non-qualified Ag land rate

² Class 12 rates is calculated on the weighed average of all commercial and industrial property

¹ Actual rate is higher due non-qualified Ag land rate

² Class 12 rates is calculated on the weighed average of all commercial and industrial property

The reappraised classes (classes 3, 4, and 10) had their rates set as part of HB 658 reappraisal mitigation. The class 12 tax rate is calculated under the provisions of the federal 4-R Act. The specific provisions of the act prohibits state, county, and local taxing jurisdictions from assessing rail transportation property at a higher ratio of assessed value to true market value than other commercial and industrial property within the jurisdiction. Class 12 property is assessed annually at the weighted average tax rate for all commercial and industrial property in the state. Class 4 commercial property represents over half of statewide commercial and industrial property and is assessed on a six-year cycle. In order to comply with the 4-R Act, the Department of Revenue uses commercial property sales to calculate the required adjustment to the class 4 commercial tax rate used in the class 12 weighted average tax rate. This revenue estimate uses the forecast of market and taxable values for all commercial and industrial property to calculate the likely class 12 rate for TY 2011 and TY 2012 (the tax rate for TY 2010 is known). These rates are presented in Table 9.

Step 4. Calculate the statewide fiscal year taxable value for each class of property.

For all classes of property except class 8, the tax collected on the calendar year taxable value is the next fiscal year's revenue. Tax year class 8 assessed value needs to be adjusted for the billing cycle for personal property not lien-to-real property. Class 8 property not lien-to-real property (about 44% of the class by value) is taxed in the spring of the calendar year and is therefore paid in the current fiscal year (during the month of May). Class 8 property lien-to-real property (56%) is collected in the following fiscal year when real property tax payments are made in November and May. Therefore, FY 2010 taxable value is 56% of TY 2009 taxable value and 44% of TY 2010 taxable value. This adjustment is made to the class 8 property presented in the summary of taxable value (table 10). The discussion from this point forward will focus on fiscal year outcomes.

Table 10 presents the result of applying statutory tax rates (table 9) to tax year assessed values adjusted for the expected timing of property tax receipts by the state.

Table 10 Statewide Taxable Value Summary (\$ millions)			
Class & Property Description	FY 2011	FY 2012	FY 2013
1. Net Proceeds	\$3.181	\$3.233	\$3.285
2. Gross Proceeds (w/o Abatements)	\$28.347	\$30.255	\$33.396
3. Agricultural Land	\$153.566	\$149.117	\$145.145
4. Res. & Comm. Real Property	\$1,398.328	\$1,443.710	\$1,490.698
5. Rural Co-Op/Poll. Control	\$38.994	\$42.144	\$43.719
7. Non-centrally Assessed Util.	\$1.298	\$1.349	\$1.401
8. Business Equipment (FY adjusted)	\$188.299	\$197.233	\$206.614
9. Pipelines, Electrical Transmission	\$280.633	\$292.080	\$311.681
10. Forest Land	\$6.519	\$6.435	\$6.307
12. Airlines/Railroads	\$51.765	\$52.736	\$52.155
13. Telecomm./Electrical Generation	\$174.255	\$181.180	\$188.379
14. Renewable Energy Prod. & Trans.	\$17.889	\$24.099	\$28.036
15. CO ₂ /Qualifying Liquid Pipelines			
16. High Voltage DC Converter			\$1.601
Statewide Taxable Value	\$2,343.074	\$2,423.571	\$2,512.418

Table 11 presents the annual change in the forecast taxable values in table 10, by class, to facilitate comparability to the estimates presented by the Legislative Finance Division. These growth rates are important in estimating taxable value changes needed to estimate the fiscal impact of proposed legislation affecting the property tax system.

Table 11 Forecast Annual Percent Change in Taxable Value			
Class & Property Description	FY 2011	FY 2012	FY 2013
1. Net Proceeds	-20.5%	1.6%	1.6%
2. Gross Proceeds (w/o Abatements)	55.0%	6.7%	10.4%
3. Agricultural Land	-4.7%	-2.9%	-2.7%
4. Res. & Comm. Real Property	1.9%	3.2%	3.3%
5. Rural Co-Op/Poll. Control	3.9%	8.1%	3.7%
7. Non-centrally Assessed Util.	2.6%	3.9%	3.9%
8. Business Equipment (FY adjusted)	7.8%	4.7%	4.8%
9. Pipelines, Electrical Transmission	10.3%	4.1%	6.7%
10. Forest Land	-6.7%	-1.3%	-2.0%
12. Airlines/Railroads	10.4%	1.9%	-1.1%
13. Telecomm./Electrical Generation	12.6%	4.0%	4.0%
14. Renewable Energy Prod. & Trans.	37.1%	34.7%	16.3%
15. CO ₂ /Qualifying Liquid Pipelines			
16. High Voltage DC Converter			
Statewide Taxable Value Growth	4.4%	3.4%	3.7%

Step 5. Determine the taxable value base for statewide mill levies.

In order to calculate the 95 mill revenue due the state, adjustments need to be made for TIFs. TIFs do not transfer all of the 95 mill revenue generated in the district to the state. TIF districts (authorized under Title 7, chapter 14, part 42, MCA.) retain the taxes generated from all millage in the district (except the 6 mill university levies) on the taxable value greater than the taxable value existing in the district when it was created, commonly referred to as the "TIF incremental value". The 95 mill revenue, generated from these increments must be deducted from the estimate of state property tax revenue. The estimate grows TIF incremental taxable value by the TIF property class-weighted average annual percent changes. During the forecast period three TIF districts in Dear Lodge county and two TIF districts in Flathead county are scheduled to expire.

Because the calculation of total property tax revenue is estimated by applying the standard statutory tax rates to the assessed market value property base, no adjustment is needed for locally abated property. Table 12 displays the calculation of state revenue generated from the 95 mill levies.

Table 12 Calculation of General Fund Revenue from 95 Mill Levy (\$ millions)				
Calculation	FY 2010	FY 2011	FY 2012	FY 2013
Statewide Taxable Value	\$2,244.764	\$2,343.074	\$2,423.571	\$2,512.418
Subtract TIF Value	(\$32.014)	(\$33.092)	(\$34.579)	(\$36.219)
Add Abated Property Value	\$0.000	\$0.000	\$0.000	\$0.000
Taxable Value for 95 Mills	\$2,212.749	\$2,309.982	\$2,388.992	\$2,476.199
Apply 95 Mills	0.095	0.095	0.095	0.095
State Revenue from 95 Mills	\$210.211	\$219.448	\$226.954	\$235.239

The 1.5 mill levy revenue for colleges of technology is estimated based on the taxable value in counties with colleges of technology adjusted for county TIFs. Table 13 shows the estimated revenue generated by the 1.5 mill levy

Table 13 Property Tax 1.5 Mill Levy General Fund Revenue (\$ millions)				
	FY 2010	FY 2011	FY 2012	FY 2013
COT County Taxable Value	\$764.748	\$793.177	\$822.479	\$852.969
COT County TIF Value	(\$17.181)	(\$17.985)	(\$18.824)	(\$19.726)
Taxable Value for 1.5 Mills	\$747.567	\$775.192	\$803.655	\$833.243
Apply 1.5 Mills	0.0015	0.0015	0.0015	0.0015
1.5 Mill Levy Revenue	\$1.115	\$1.163	\$1.205	\$1.250

Step 6. Calculate total general fund property tax revenue due from mill levies and non-levy revenues.

The main non-levy revenues that are shared by counties and the state based on the relative distribution of state and local mills are coal gross proceeds (in counties that have coal production), and federal forest receipts (in counties that have national forest acreage). Additionally there is an assortment of small miscellaneous revenues that counties and the state share.

Beginning in FY 2009, the Secure Rural Schools and Communities Act (SRS) was reauthorized and fully funded under the Emergency Economic Stabilization Act of 2008. The SRS uses the federal forest receipts distribution formula. The state receives the 55 mill share of one-third of Title I funds allocated to countywide school levies. In recent years, that

has meant approximately 21.3% of all Title I payments accrue to the state due to proportion share of school equalization mills.

The base for coal gross proceeds non-levy revenue is the coal severance tax forecast. The coal gross proceeds tax is a 5% levy on the gross value of coal produced. The state receives the TY 1989, elementary and high school mills (45 mill) share of the coal gross proceeds tax collections based on the TY 1989 state to local education mill distribution shares.

Table 14 combines the 95 mills and 1.5 mill revenue (net of an estimated \$1.615 million in anticipated centrally assessed protested property tax that is allocated to a reserved account) and non-levy revenues. The specific taxable values reductions due to the EPTAP were not available for this estimate as the "taxes levied" report was still being compiled from county reports. The calculations presented in the fiscal note for HB 658 were used for the likely revenue reductions due to the program.

Table 14 Summary of General Fund Property Tax Revenue (\$ millions)				
	Actual FY 2010	FY 2011	Forecast FY 2012	FY 2013
Property Tax - 95 Mill Levy	\$210.211	\$219.448	\$226.954	\$235.239
Property Tax - 1.5 Mill Levy	\$1.096	\$1.115	\$1.163	\$1.205
Protested Property Taxes	(\$1.183)	(\$1.183)	(\$1.183)	(\$1.183)
Adjustment for EPTAP	(\$0.134)	(\$0.192)	(\$0.227)	(\$0.236)
Net Property Mill Levy Revenue	\$209.990	\$219.189	\$226.707	\$235.025
Non-Levy Revenue:				
Coal Gross Proceeds	\$6.741	\$6.580	\$6.522	\$6.065
Federal Forest Reserves	\$4.986	\$4.891	\$4.403	\$0.636
All other (by residual FY 2010)	\$0.793	\$0.805	\$0.805	\$0.805
Subtotal Non-Levy Revenue	\$12.519	\$12.276	\$11.730	\$7.506
Total Property Tax Revenue	\$222.510	\$231.464	\$238.437	\$242.531

Distribution

The general fund receives 100% of the 33 mill, 22 mill, 40 mill levies, as well as the 1.5 mill levy. Only the general fund portion of non-levy revenues collected by counties that are distributed to the state, are presented.

Data Sources

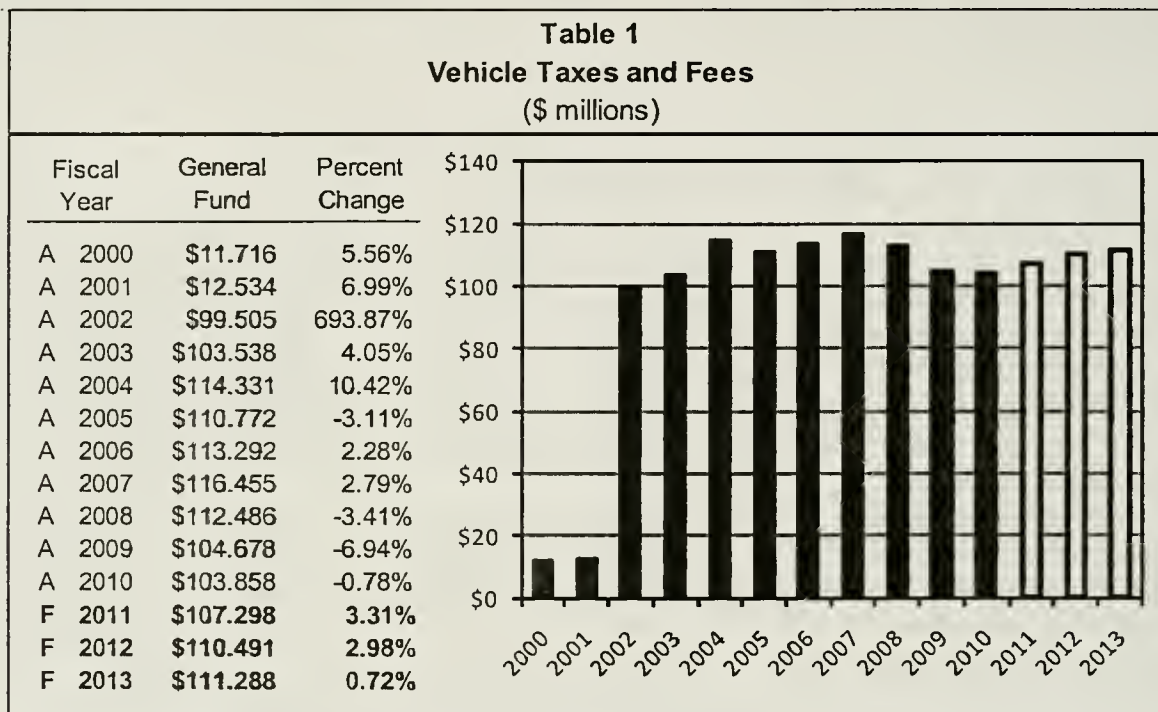
Tax collections are extracted from the state accounting system (SABHRS). The summary property tax database and other property tax reports were provided by the Department of Revenue. The Office of Public Instruction prepares the FP6b summary of county school revenues used in the estimates of "all other" non-levy revenue. The producer price index for metals is from the Global Insight October 2010 National Forecast.

Vehicle Taxes and Fees

2013 Biennium

Revenue Description

Titles 23 and 61, MCA, provide for multiple fees and fees-in-lieu of taxes on motor vehicles. Such vehicles include light vehicles, heavy vehicles weighing more than one ton, motor homes, trailers, travel trailers, watercraft, motorcycles, snowmobiles, and off-highway vehicles. Fees are based on one or a combination of the following criteria: age, weight, size, or vehicle type. Light vehicles (cars, light trucks, and sports utility vehicles) registration fees-in-lieu of taxes represent nearly 80% of vehicle taxes and fees.



Since FY 2002, motor vehicle revenue has been deposited to the general fund. Fluctuations in revenue since FY 2002 result from legislation. There is little change in overall revenue because the number of automobiles and light trucks is large (over 850,000 vehicles) and annual new vehicle registrations are relatively few (30,000-50,000). The stock vehicles changes only to the extent that new registrations are greater (or fewer) than the number of vehicles sold out of state or are taken out of service. However, new light vehicles (those less than 5 years old) have a disproportionate revenue effect as their registration fees are 2.5 times higher than cars 5 to 10 years old, and 7.75 times higher than light vehicles over 10 years old.

Risks and Significant Factors

- Revenue has been reduced more than expected in recent years.
- The reduction in new vehicle registrations with the economic slowdown coincided with the MERLIN system registration delays. The conversion to the MERLIN system, until recently, reduced the data available to identify underlying vehicle trends.
- Approximately 6% of all light vehicles are registered permanently. Permanent registration of eligible (older) vehicles lowers future vehicle collections. A permanent registered vehicle only re-enters the vehicle tax collection system on a change of ownership.

Forecast Methodology

Major reforms in motor vehicle tax legislation by the 2005 Legislature resulted in accounting and registration changes.

The forecast of general fund vehicle license tax revenue is prepared in the following steps:

- Step 1.** Project the stock of Montana light vehicles using new vehicle registrations, an estimate of the current age distribution of registered light vehicles, and estimated changes in ownership by residual from SABHRS registration revenue.
- Step 2.** Estimate the number of light vehicles registering permanently and forecast permanent registration revenue
- Step 3.** Estimate annual registration revenue from light vehicles
- Step 4.** Collections from other vehicles types, license plates, and other fees are projected using historical ratios of these revenues with respect to light vehicles collections
- Step 5.** Estimate total collections by adding total annual registrations, collections for other vehicle, license plates and other fees, as well as projected permanent registration revenue.

There are currently 54 separate accounts for which vehicle taxes and fee revenues are recorded. Table 2 groups revenue by functional categories or vehicle type. These groupings are used to estimate total revenue. The estimate builds on the number of cars and light trucks which generate nearly 80% of all general fund vehicle tax and fee revenue.

It is important to note that for this estimate adjusted fiscal year light vehicle revenue is used, not current year revenue presented in SABHRS because of accounting delays related to timing of Motor Vehicle Division (MVD) recording of revenue. An October 2008 Legislative Audit Division report of the Department of Justice documents some of the challenges the department faces in recording fiscal year-end revenues received from counties. These estimates minimize these effects by use prior year adjustments to estimate underlying "real" fiscal year activity. Additionally, with the advent of the MERLIN system, several revenue accounts have been added, while others have been consolidated. In order to preserve comparability, only data since FY 2007 is used to form account "cohorts". These aggregates are presented in Table 2.

Table 2 Vehicle Taxes and Fee Revenue by Grouped SABHRS Accounts (\$ millions)				
	FY 2007	FY 2008	FY 2009	FY 2010
Light Vehicle Registrations	\$87.944	\$87.637	\$85.179	\$83.157
Other Vehicle Registrations	\$14.761	\$14.493	\$13.191	\$12.287
Other Fees	\$8.761	\$7.305	\$6.365	\$5.910
<i>of which "other fees" revenue from:</i>				
<i>Generic Specialty Plates</i>	\$0.494	\$0.459	\$0.436	\$0.313
<i>New Plates</i>	\$3.037	\$1.493	\$1.308	\$0.990
<i>Specialty Plates</i>	\$1.334	\$1.336	\$1.251	\$1.232
<i>Titles</i>	\$2.444	\$2.464	\$2.165	\$2.156
<i>Other</i>	\$1.452	\$1.553	\$1.205	\$1.219
Permanent Registrations	\$2.465	\$3.015	\$2.982	\$2.849
Total	\$113.931	\$112.449	\$107.717	\$104.203
<i>Reverse Prior Year Adj.</i>	\$2.539	\$0.027	(\$3.042)	Not Avail
<i>Fiscal Year Revenue</i>	\$116.470	\$112.477	\$104.675	\$104.203

Step 1. Current Stock. Table 3 presents the actual and forecast number of new car and light truck registrations. Montana FY 2010 registrations are consistent with reports that show a significant drop in new car sales nationally. In order to estimate the stock of Montana vehicles, FY 2010 data on the number and distribution of active vehicle registrations, by vehicle age, in Montana are used to set the base number of cars and light trucks. The forecast projects the number of vehicles registered in Montana by adding Global Insight forecast new vehicles (registrations). From this pool is subtracted an estimate of vehicle that are retired. The "scrappage rate" is based on the estimated percent of apparent disappearance vehicles from national stock of light vehicles using data from Global Insight national vehicle stock estimates and estimates of new vehicles.

Table 3 Light Motor Vehicle Stock and The Number of Vehicles Eligible for Permanent Registration									
Fiscal Year	New Light Vehicles		Estimated Population of Vehicle by Age					Permanent Registrations	
	Registrations	Percent Change	0 to 4 Years	5 to 10 Years	Over 10 Years	All	Percent Change	Number	Share (10+)
A 2010	43,891	23.9%	184,335	308,748	399,062	892,145	1.2%	32,373	8.1%
F 2011	48,985	11.6%	189,429	315,511	402,444	907,384	1.7%	34,208	8.5%
F 2012	55,278	12.8%	195,722	328,312	399,775	923,809	1.8%	33,981	8.5%
F 2013	58,887	6.5%	199,331	325,745	400,351	925,427	0.2%	34,030	8.5%

Step 2. Permanent Registrations. The right side of Table 3 presents the estimate of the share of vehicles that are eligible for permanent registration (vehicles over 10 years of age). Montana registered vehicles that are over ten years old can be registered permanently for a fixed fee of \$87.50 (approximately three-times the annual registration fee for the same vehicles). Based on these fees the number of vehicles that registered permanently in any given year can be calculated from accounting data. These permanently registered vehicles generate no future revenue unless they change ownership. As such, they lower the number of vehicles that register and pay fees annually. The current estimate assumes that the share of vehicles that will be permanently registered has stabilized at about 8.5% of the eligible vehicle stock.

Step 3. Annual Registrations. Table 4 presents the estimated revenue from light vehicle registrations by age class. The number of cars and light trucks that are likely to register annually are based on the new registrations forecast. The difference between the revenue from the count of individual light vehicles by age/fee class is assumed to represent revenue from registrations on the transfer of ownership. Implicit in this assumption is that changes in ownership are distributed uniformly by vehicle age.

Table 4 Estimate of Light Motor Vehicle Registration Revenue by Age Class (\$ millions)						
Fiscal Year	0 to 4 Years \$217 Fee	5 to 10 Years \$87 Fee	Over 10 Years \$28 Fee	Total with No Change of Ownership	Estimated Change in Ownership	Annual Light Vehicle Revenue
A 2007	\$45.505	\$25.055	\$10.062	\$80.622	9.1%	\$87.944
A 2008	\$44.057	\$25.154	\$9.964	\$79.174	10.7%	\$87.637
A 2009	\$41.631	\$25.883	\$10.018	\$77.531	9.9%	\$85.179
A 2010	\$40.001	\$26.861	\$10.267	\$77.129	7.8%	\$83.157
F 2011	\$41.106	\$27.449	\$10.311	\$78.866	9.3%	\$86.201
F 2012	\$42.472	\$28.563	\$10.242	\$81.277	9.3%	\$88.836
F 2013	\$43.255	\$28.340	\$10.257	\$81.852	9.3%	\$89.464

Step 4. Apply Historical Ratios. Based on light vehicle revenue, Table 5 uses vehicle registration revenue by group to estimate the revenue from all other vehicles and estimates the increment due to licensing, plating, registration, and titling fees. The ratios are stable but vary with significant changes in legislation. Forecasts are based on the ratios experienced during the last two fiscal years as these ratios reflect the current law. Growth rates for each group are assumed to match the change in light vehicle revenue.

Table 5 Total Vehicle Revenue Net of Permanent Registration (\$ millions)							
Fiscal Year	Light Vehicle Revenue	Ratio	Other Vehicle Registration Revenue	Ratio	All Other Fees	Total (Before Permanent Registrations)	Percent Change
A 2007	\$87.944	0.168	\$14.761	0.593	\$8.761	\$111.466	-1.9%
A 2008	\$87.637	0.165	\$14.493	0.504	\$7.305	\$109.434	-1.8%
A 2009	\$85.179	0.155	\$13.191	0.483	\$6.365	\$104.736	-4.3%
A 2010	\$83.157	0.148	\$12.287	0.481	\$5.910	\$101.354	-3.2%
F 2011	\$86.201	0.145	\$12.499	0.450	\$5.625	\$104.324	2.9%
F 2012	\$88.836	0.145	\$12.881	0.450	\$5.797	\$107.514	3.1%
F 2013	\$89.464	0.145	\$12.972	0.450	\$5.838	\$108.274	0.7%

Step 5. Combine All Estimates. The final step of the estimate is to combine the estimate of revenue from permanent registrations with all other vehicle taxes and fees. These are presented in Table 6.

Table 6 All Vehicle Taxes and Fees Revenue (\$ millions)				
Fiscal Year	Total Collections Net of Permanent Registrations	Permanent Registration Estimate	Total Revenue	Projected Growth
A 2007	\$111.466	\$2.465	\$113.931	0.6%
A 2008	\$109.434	\$3.015	\$112.449	-1.3%
A 2009	\$104.736	\$2.982	\$107.717	-4.2%
A 2010	\$101.354	\$2.849	\$104.203	-3.3%
F 2011	\$104.324	\$2.973	\$107.298	3.0%
F 2012	\$107.514	\$2.978	\$110.491	3.0%
F 2013	\$108.274	\$3.014	\$111.288	0.7%

Distribution

SB 508 (2009 Legislature) instituted a 5-year rolling re-issue process for new license plates effective January 1, 2010. The bill also changed the distribution of new plate fees directing \$2 to the general fund and \$8 to a state special revenue fund to be used to develop an insurance coverage verification system. SB 508 reduces general fund revenue by approximately \$660,000 per year

Data Sources

Tax revenue data are from SABHRS. Montana vehicles stock and age distribution for FY 2010 is from the Department of Justice's Motor Vehicles Division. The light vehicle registration forecast is from Global Insight (October 2010).

Corporation License Tax

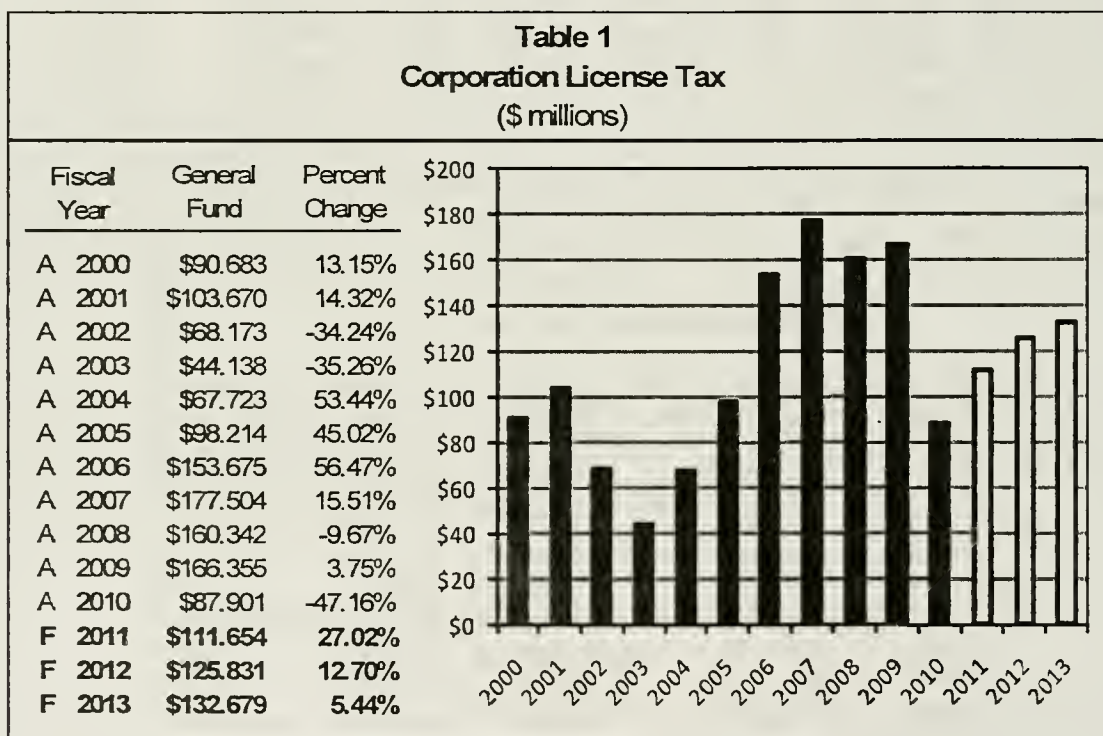
2013 Biennium

Revenue Description

In accordance with 15-31-121, MCA, Montana imposes a corporation license tax on corporate income apportioned to Montana. The tax is levied at a flat rate of 6.75% of net income; however, corporations making a "water's edge" election are taxed at 7%. Since FY 2006, revenues have been deposited 100% in the general fund (15-31-121, MCA).

Corporations expecting to have tax liability of at least \$5,000 are required to make quarterly estimated payments. Returns are due five months after the end of the tax year, but a corporation may have an automatic six-month extension and the Department of Revenue may grant additional extensions. Corporations taking an extension and expecting to have tax liability greater than their estimated payments generally make a tentative payment when their return is due. The minimum corporation tax payment for a year is \$50.

Table 1 shows total and general fund revenue from corporation license taxes for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013. Corporate profits declined sharply during FY 2009 as a result of the "Great Recession," and as a result, corporate tax revenue fell sharply in FY 2010.



Corporate tax revenue fell by more than 47% in FY 2010, the largest annual decline in over 20 years. It is estimated corporate profits will show strong growth relative to their FY 2010 levels and as a result corporate tax revenue will increase at a higher than average growth rate in FY 2011 and FY 2012 before resuming a more modest growth rate in FY 2013. It is also important to note that we will not see corporate tax revenue peak levels in the forecast period.

Risks and Significant Factors

- Corporate tax revenue is highly correlated with the health of the overall US economy. If the economy were to experience a "double dip" recession, then corporate tax revenue would be much lower than anticipated.
- Montana allows corporations to deduct business losses from past years against current year's taxable income. Montana also allows corporations to amend past returns to deduct current losses. Corporations are permitted to carry losses three years into the past and seven years into the future. As a result, the variation in corporate

tax revenue can be much greater than that of corporate profits.

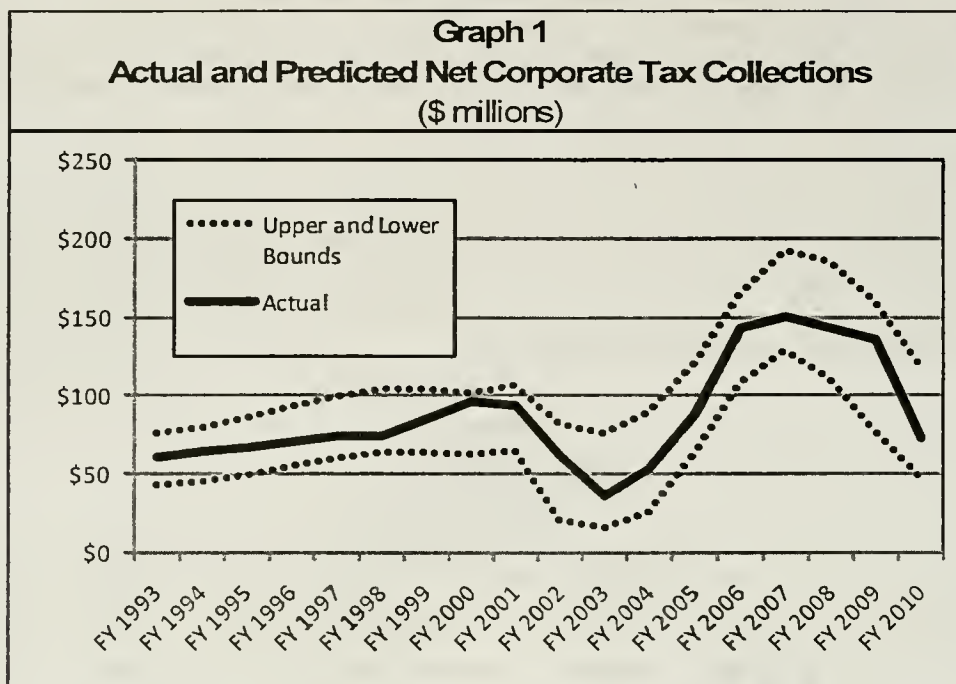
- The Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed first year depreciation to be increased by 30% for purchases between September 10, 2001, and May 5, 2003, and by up to 50% for purchases between May 6, 2003, and December 31, 2004. This temporary change in accounting rules shifts corporate profits and taxes from calendar years 2001 through 2004 to later years. Any new legislation allowing for bonus depreciation would have the same effect.
- In tax year 2008, the most current data available, there were nearly 13,000 companies that paid Montana corporate income tax. However, the largest 15 filers paid over 50% of the total tax, and the top 100 filers paid over 75% of the total tax. If one of these top companies earns significantly more or less than expected, this could have a large impact on corporate profits.

Forecast Methodology

Step 1. Net corporate license tax collections, including both general fund and non-general fund revenues, for FY 1993 through FY 2010 were regressed against prior year national corporate profits before taxes to produce an estimate of the relationship. The regression model also incorporates a time trend and variable indicating times of national economic downturn. Table 3 shows actual net collections for FY 2000 through FY 2010 and forecast collections for FY 2011 through FY 2013.

Table 2 Net Collections (\$ millions)	
<u>Fiscal Year</u>	<u>Net Collections</u>
A 2000	\$96.794
A 2001	\$93.993
A 2002	\$62.257
A 2003	\$36.060
A 2004	\$53.549
A 2005	\$87.617
A 2006	\$142.845
A 2007	\$150.690
A 2008	\$143.467
A 2009	\$135.313
A 2010	\$72.521
F 2011	\$103.533
F 2012	\$114.237
F 2013	\$119.886

Graph 1 shows the actual collections as well as the upper and lower confidence intervals of the predicted collections for FY 1993 through 2010. At no time were the actual collections greater or less than the upper and lower confidence intervals, which would indicate a fairly accurate estimation model. However, the model does not account for inaccurate forecast of before-tax corporate profits from Global Insight or other forecasting companies. Any error in the Global Insight forecast will have a direct impact on estimated corporate tax collections.



Step 2. Audit and penalty and interest collections are estimated conservatively based on a five-year minimum percentage of the net collections of the previous year.

Fiscal Year	PY Net Collections	Audits, Penalties, and Interest	Percent of PY Collections
A 2006	\$87.617	\$10.830	12.36%
A 2007	\$142.845	\$26.814	18.77%
A 2008	\$150.690	\$16.875	11.20%
A 2009	\$143.467	\$31.041	21.64%
A 2010	\$135.313	\$15.380	11.37%
F 2011	\$72.521	\$8.121	11.20%
F 2012	\$103.533	\$11.594	11.20%
F 2013	\$114.237	\$12.792	11.20%

Step 3. Total collections are the sum of the net collections, audit, penalty, and interest collections. The calculation is shown in Table 4.

Table 4 Total Collections (\$ millions)				
Fiscal Year	Net Collections	Audits, Penalties, and Interest	Total Revenue	
A 2000	\$96.794 +	\$2.295	=	\$99.089
A 2001	\$93.993 +	\$9.677	=	\$103.670
A 2002	\$62.257 +	\$5.916	=	\$68.173
A 2003	\$36.060 +	\$8.078	=	\$44.138
A 2004	\$53.549 +	\$14.174	=	\$67.723
A 2005	\$87.617 +	\$10.597	=	\$98.214
A 2006	\$142.845 +	\$10.830	=	\$153.675
A 2007	\$150.690 +	\$26.814	=	\$177.504
A 2008	\$143.467 +	\$16.875	=	\$160.342
A 2009	\$135.313 +	\$31.041	=	\$166.355
A 2010	\$72.521 +	\$15.380	=	\$87.901
F 2011	\$103.533 +	\$8.121	=	\$111.654
F 2012	\$114.237 +	\$11.594	=	\$125.831
F 2013	\$119.886 +	\$12.792	=	\$132.679

Distribution

All of the revenue collected for the video gambling tax is distributed to the general fund.

Data Sources

Data was obtained from SABHRS and the October 2010 Global Insight forecast.

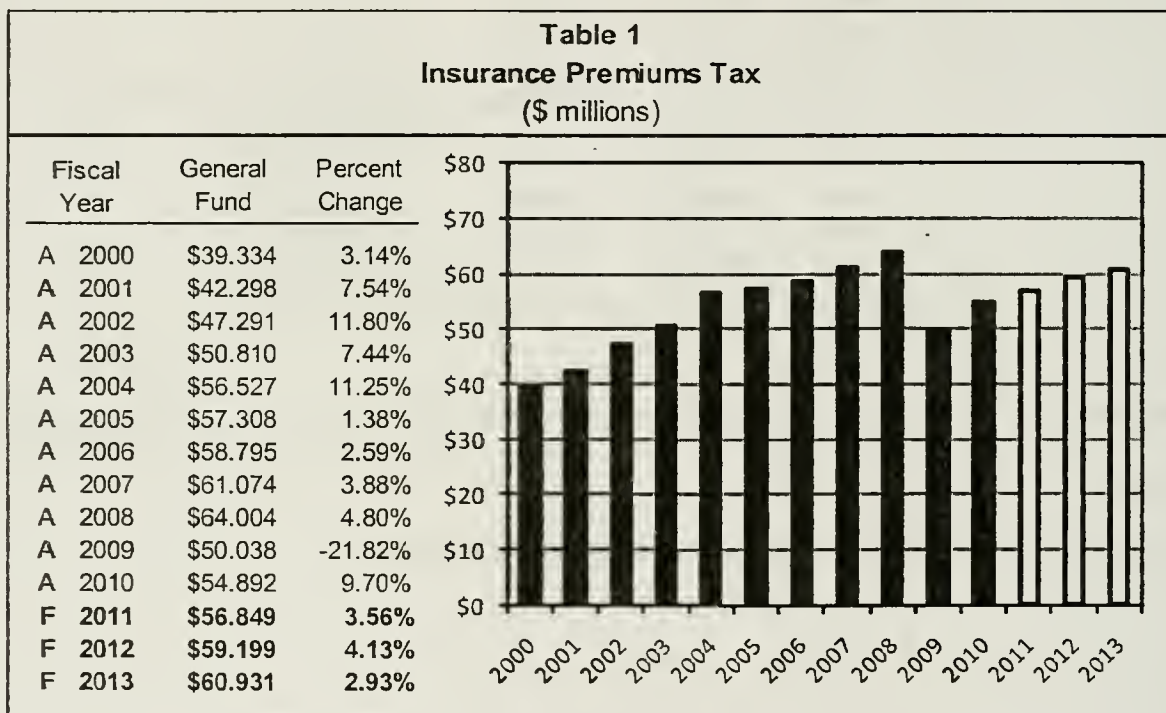
Insurance Premiums Tax

2013 Biennium

Revenue Description

Per 33-2-705, MCA, Montana levies a tax of 2.75% on net premiums on all insurance policies except those issued by health service corporations (HSCs). HSCs are exempt from all premium taxes under 33-30-203, MCA. An additional surcharge of 2.5% on premiums is collected for fire and casualty insurance on property (50-3-109, MCA). There is also a premium insurance tax for captive insurance companies levied under 33-28-201, MCA. Starting in November 2008, Initiative 155 transfers 33% of insurance premium taxes collected (under 33-2-705, MCA) to a state special revenue fund for the Healthy Montana Kids Plan Act (53-4-1101, MCA). HB 676 of the 2009 session reduces the transfer to 16.67% for the 2011 and 2013 biennia. The State Auditor's Office (SAO) administers the collection of these taxes.

Table 1 presents the general fund receipts from insurance premium taxes for FY 2000 through FY 2010 as well as the forecast for FY 2011 through FY 2013.

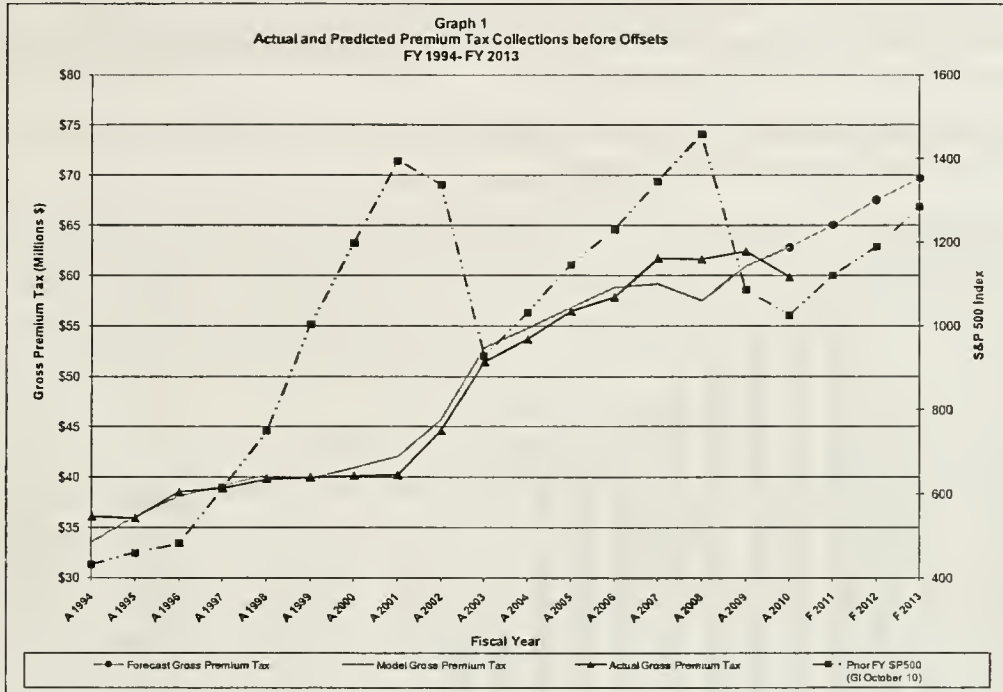


Risks and Significant Factors

- Financial or other turmoil raises insurer's costs; slow wage growth may reduce insurance purchases.
- Revenues may be reduced if consumers choose insurance coverage provided by HSCs or public plans.
- Premium tax collections tend to move counter cyclically with financial markets as companies collect premiums from policy holders and pay claims from premiums and investment earnings. When investment earnings are high, insurance companies can reduce premiums charged to clients.
- Excess credit carryover balances due to insurance companies, accumulated since FY 2000, were returned to companies in FY 2010 per a Legislative Audit Division recommendation. For FY 2010 this was just over \$663,000 in premium taxes, for FY 2009 nearly \$350,000, and for the period FY 2008 through FY 2001, \$1.870 million was returned to insurance companies.
- Accounting changes in the past have masked underlying real consumer behavior and tax collections.

Forecast Methodology

Step 1. Insurance premium taxes forecast. Insurance premium taxes, before offsets, are projected from a model of relationship of insurance premium tax collections with respect to the average Standard and Poor's 500 stock index value for the prior fiscal year, and the Montana unemployment rate. The effect of modeling FY 1994 through FY 2010 is presented in Graph 1. A portion of the model error in recent years may be due to the refund of insurance company credit carryover balances. Because of this, the forecast is based on the model as the effective "actuals" are distorted by these after-the-fact refunds.



Step 2. Calculate offsets and insurance tax bases for distributions. Insurance companies are allowed to offset some of their premium taxes for other statutory mandates. These programs are: the Montana Life and Health Insurance Guarantee Association (MLHIGA) and the Montana Comprehensive Health Association (MCHA). The collective impacts of these programs have reduced state general fund receipts by approximately \$2 million a year. Offsets are forecast based on prior trends and SAO estimates. Table 2 lists claimed premium tax offsets through FY 2010 and estimates of future offsets. The MLHIGA assessments are approaching zero. The MCHA assessments fluctuate and tend to grow in biennial jumps.

Additionally, captive insurance company premiums tax, yearly insurance premium taxes, and surplus lines taxes need to be estimated and excluded from insurance premium taxes that are the base for distributions to the Healthy Montana Kids' fund. This also allows for the calculation of captive insurance company insurance premium taxes that are directed to the captive insurance company administration fund.

Captive insurance companies are regulated under Title 33, Chapter 28 of the Montana Code, (SB 373 of the 2001 Legislature). Captive insurance firms pay tax on premiums collected under 33-28-201, MCA, and were recorded in the same account as premium taxes collected under 33-2-705, MCA, until FY 2010. The 2007 Legislature, through SB 161 reserved five percent (5%) of the tax paid by captive insurance companies for the oversight of captive insurance companies'. HB 160 of the 2009 session reduced the number of tax rate bands from four to two (with no revenue effects) and allowed for quarterly proration of initial year fees. In FY 2010, nearly \$420,000 in premium taxes were collected from captive insurance companies and nearly \$21,000 was directed to the state special revenue account for supervising captive insurance companies. Presently, premiums tax collections from captive insurance companies represent a small but rapidly growing fraction of total premium tax collections.

In FY 2011, there has been a change in the allocation of some surplus lines premiums taxes from a multi-state distribution formula to a formula more heavily weighted by the domicile of the insurance company collecting surplus lines premiums. This is expected to reduce revenue by approximately \$500,000 per year. The rest of premiums taxes that are excluded from I-155 distribution are calculated by residual for FY 2010. The proportion of these taxes relative to gross insurance premiums taxes are used to project these collections.

Step 3. Calculate fire surtax. The Fire Marshal surtax on fire and casualty insurance is projected using the historical proportion of these taxes with respect to base insurance premium tax collections (before offsets). Table 2 lists the actual fire/casualty (or Fire Marshall tax) and forecast collections. The FY 2008 estimate includes a FY 2009 prior year adjustment (for FY 2008 transactions). Surtax collection shares have remained steady between 5.7% and 6.5% of gross premium taxes since FY 2003. The five-year average of 6.23% of gross premium taxes is used to project Fire Marshal tax collections.

Step 4. Calculate insurance licenses and permits revenue. Revenue from insurance licenses and permits are projected based on a three-year moving average.

Step 5. Total the estimates. Total general fund insurance premiums tax revenue (net of offsets and I-155 distributions), fire/casualty insurance surtax, and licenses and permits fees are summed to determine the estimate of insurance premiums tax collections for FY 2011, FY 2012, and FY 2013. Table 5 sums all the estimates the distributions for the Healthy Montana Kids' fund (I-155) with the impact of HB 676 changes to the I-155 distributions as well as the SB 161 captive insurance company administration account.

Table 2 Insurance Premium Tax Collections (\$ millions)														
Fiscal Year	Estimated Gross Insurance Premium Tax		Of which:			Offsets & Refunds	Fire & Casualty Surtax	Licenses & Permits	Adjusted General Fund Revenue	Healthy Montana Kids' Fund	Captive Insurance Admin Fund			
			Captive Premium Tax	Surplus Lines Tax	Other GF Insurance Taxes									
A 2000	\$40.160	-				\$2.083	+	\$2.033	+	\$0.252	=	\$40.362		
A 2001	\$40.218	-				\$0.861	+	\$2.185	+	(\$0.286)	=	\$41.256		
A 2002	\$44.628	-				\$0.740	+	\$2.429	+	\$0.246	=	\$46.563		
A 2003	\$51.445	-				\$1.463	+	\$2.921	+	\$0.359	=	\$53.261		
A 2004	\$53.672	-				\$1.161	+	\$3.210	+	\$0.543	=	\$56.264		
A 2005	\$56.428	-		\$1.249		\$2.218	+	\$3.416	+	(\$0.404)	=	\$57.222		
A 2006	\$57.859	-		\$1.778		\$1.469	+	\$3.597	+	\$0.184	=	\$60.172		
A 2007	\$61.707	-		\$1.806		\$1.807	+	\$3.831	+	\$0.002	=	\$63.733		
A 2008	\$61.609	-	\$0.226	\$1.819		\$1.757	+	\$3.998	+	\$0.068	=	\$63.907		\$0.011
A 2009	\$62.407	-	\$0.340	\$1.572		\$1.877	+	\$3.928	+	\$0.055	=	\$50.111	\$14.385	\$0.017
A 2010	\$62.822	-	\$0.419	\$2.009	\$0.422	\$2.016	+	\$4.023	+	\$0.024	=	\$55.171	\$9.661	\$0.021
F 2011	\$65.041	-	\$0.524	\$1.500	\$0.439	\$2.187	+	\$4.051	+	\$0.037	=	\$56.849	\$10.067	\$0.026
F 2012	\$67.562	-	\$0.629	\$1.757	\$0.456	\$2.146	+	\$4.208	+	\$0.037	=	\$59.199	\$10.431	\$0.031
F 2013	\$69.689	-	\$0.724	\$1.603	\$0.470	\$2.339	+	\$4.341	+	\$0.037	=	\$60.931	\$10.761	\$0.036

Distribution

Distributions to the Healthy Montana Kids' fund and the Captive Insurance fund are presented in table 2. Currently, 16.67% of insurance premiums tax (33-2-705, MCA) collections are distributed to the Healthy Montana Kid's state special revenue fund. Per HB 676 (2009 session) the distribution changes to 33% after FY 2013. A distribution for 5% of the insurance premium taxes collected under 33-28-201, MCA, helps fund the costs of administering the captive insurance company program at the State Auditor's Office

Data Sources

Tax collections are from SABHRS. The Insurance Division of the State Auditor's Office provided historical data on offsets, estimates of future offsets, and provided information regarding changes in the allocation of surplus lines taxes. The Standard & Poor's 500-stock index and Montana unemployment rate are from IHS Global Insight October 2010.

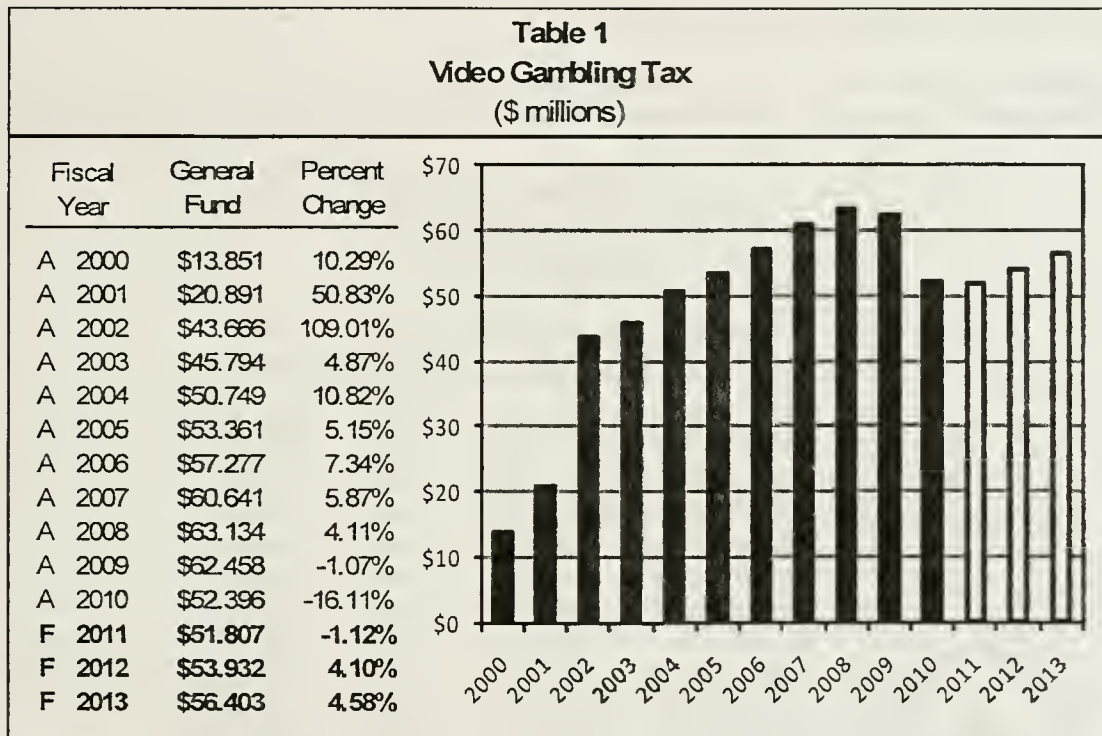
Video Gambling Tax

2013 Biennium

Revenue Description

In accordance with 23-5-610, MCA, a 15% tax is imposed on the gross machine income received from video gambling machines in the State of Montana. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the state general fund.

Table 1 shows actual video gambling revenue to the general fund for FY 2000 through FY 2010, and forecast revenue for FY 2011 through FY 2013.



HB 124 (2001 session) changed the distribution of the video gambling tax. Prior to the fourth quarter of FY 2001, two-thirds of the video gambling tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning in fourth quarter FY 2001, all video gambling tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue between FY 2001 and FY 2002.

Revenue decreased in FY 2009 and then again in FY 2010. This is believed to be an effect of two separate phenomena. The first is disposable income in Montana decreased during this period, and as a result, people had less income to spend on video gambling. The other factor affecting video gambling tax collections was the full implementation of the Montana Clean Indoor Air Act. Casinos and bars were required to fully implement the no smoking legislation on October 1, 2009, and since then the quarterly gambling revenue has seen smaller tax collections relative to previous fiscal years.

Risks and Significant Factors

- The two main factors effecting tax revenue are total personal income for the state as a whole and peoples' participation rates in video gambling. If peoples' income goes down they will have less money to spend on gambling, and vice-versa.

- The implementation of banning indoor smoking appears to have had a negative effect on gambling activity recently. However, as time passes this effect may become smaller and perhaps video gambling receipts may grow by more than previously anticipated.

Forecast Methodology

There are three steps in forecasting video gambling revenue:

Step 1. Forecast income in Montana,

Step 2. Determine the percentage of income that will be spent on video gambling in order to estimate gross machine income.

Step 3. Apply 15% tax rate to the gross machine income.

Table 2 shows actual total disposable income for Montana, net machine income, the percent of personal income spent on video gambling, and tax revenue for FY 2000 through FY 2010 and estimates for FY 2011 through FY 2013.

Table 2 Video Gambling Trends (\$ millions)				
Fiscal Year	Personal Income	Net Machine Inc.	% of Income	Tax Revenue ¹
A 2000	\$20,411.500 ÷	\$270.481 =	1.33%	\$40.572
A 2001	\$22,142.250 ÷	\$277.166 =	1.25%	\$41.575
A 2002	\$23,112.250 ÷	\$291.367 =	1.26%	\$43.705
A 2003	\$23,971.000 ÷	\$307.558 =	1.28%	\$46.134
A 2004	\$25,651.250 ÷	\$333.828 =	1.30%	\$50.074
A 2005	\$27,245.250 ÷	\$355.812 =	1.31%	\$53.372
A 2006	\$29,306.250 ÷	\$379.416 =	1.29%	\$56.912
A 2007	\$31,480.500 ÷	\$405.073 =	1.29%	\$60.761
A 2008	\$33,476.000 ÷	\$422.829 =	1.26%	\$63.424
A 2009	\$33,980.000 ÷	\$413.771 =	1.22%	\$62.066
A 2010	\$34,415.500 ÷	\$366.242 =	1.06%	\$54.936
F 2011	\$35,675.472 ÷	\$345.380 =	0.97%	\$51.807
F 2012	\$36,882.493 ÷	\$359.549 =	0.97%	\$53.932
F 2013	\$38,285.737 ÷	\$376.021 =	0.98%	\$56.403

¹Does not include surcharge fees in FY 2004 and FY 2005

Distribution

All of the revenue collected for the video gambling tax is distributed to the general fund.

Data Sources

Historic video gambling revenues were obtained from SABHRS MTGL0109 report and the Department of Justice website, <http://www.doi.mt.gov/gaming/statisticsreports.asp>. Historic and forecast values for Montana's total disposable income were obtained from IHS-Global Insight.



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STATE OF MONTANA

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

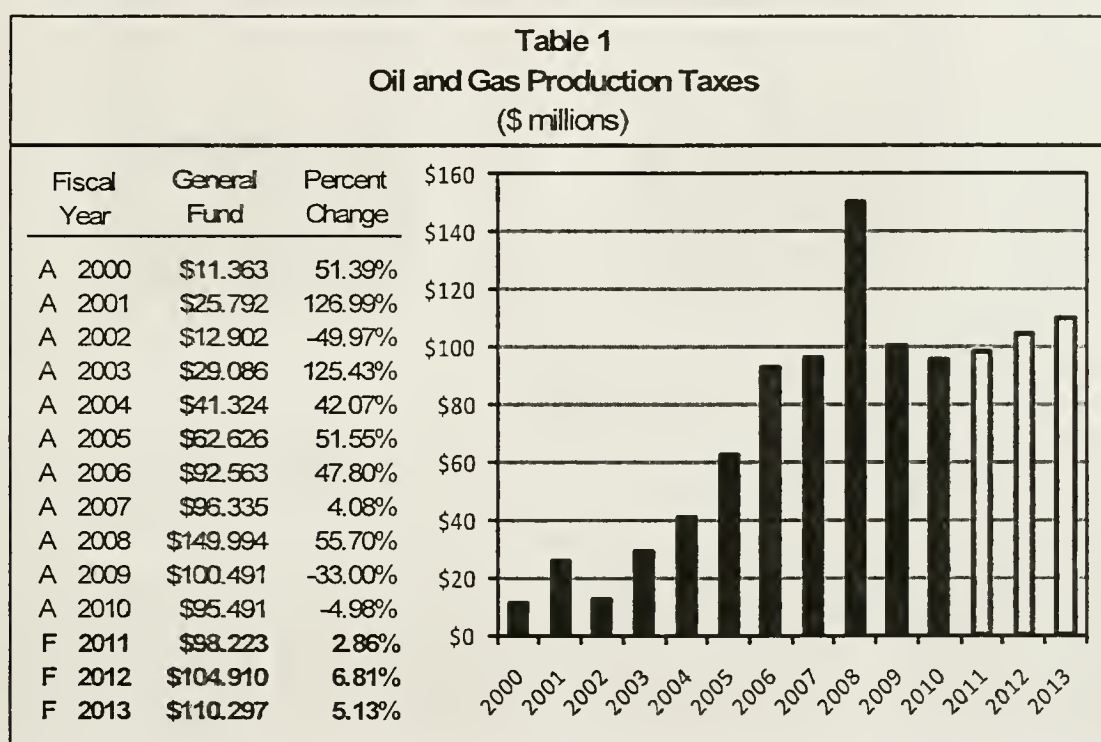
Oil and Natural Gas Severance Tax

2013 Biennium

Revenue Description

In accordance with 15-36-304, MCA, Montana taxes the gross value of oil and natural gas production. The tax rates can vary depending on the product being produced, the method of production, the age of the well, the previous year's production, and the price of oil. Working interest owners, who share in a well's costs, pay lower rates than royalty recipients who do not share in a well's costs. Revenues are distributed to a variety of state, county, and school accounts. In FY 2010, approximately 46% of revenue from the oil and natural gas production tax was deposited in the general fund.

Table 1 shows actual general fund revenue from the oil and natural gas severance tax for FY 2000 through FY 2010 and projected revenues for FY 2011 through FY 2013.



The increases in general fund revenue beginning in FY 2003 are attributable to two factors. There has been a large increase in the volume of oil and natural gas being produced, mainly in the Richland County area, and at the same time, oil and natural gas prices rose to historic highs in the spring and summer of 2008, before falling substantially in late 2008 and early 2009.

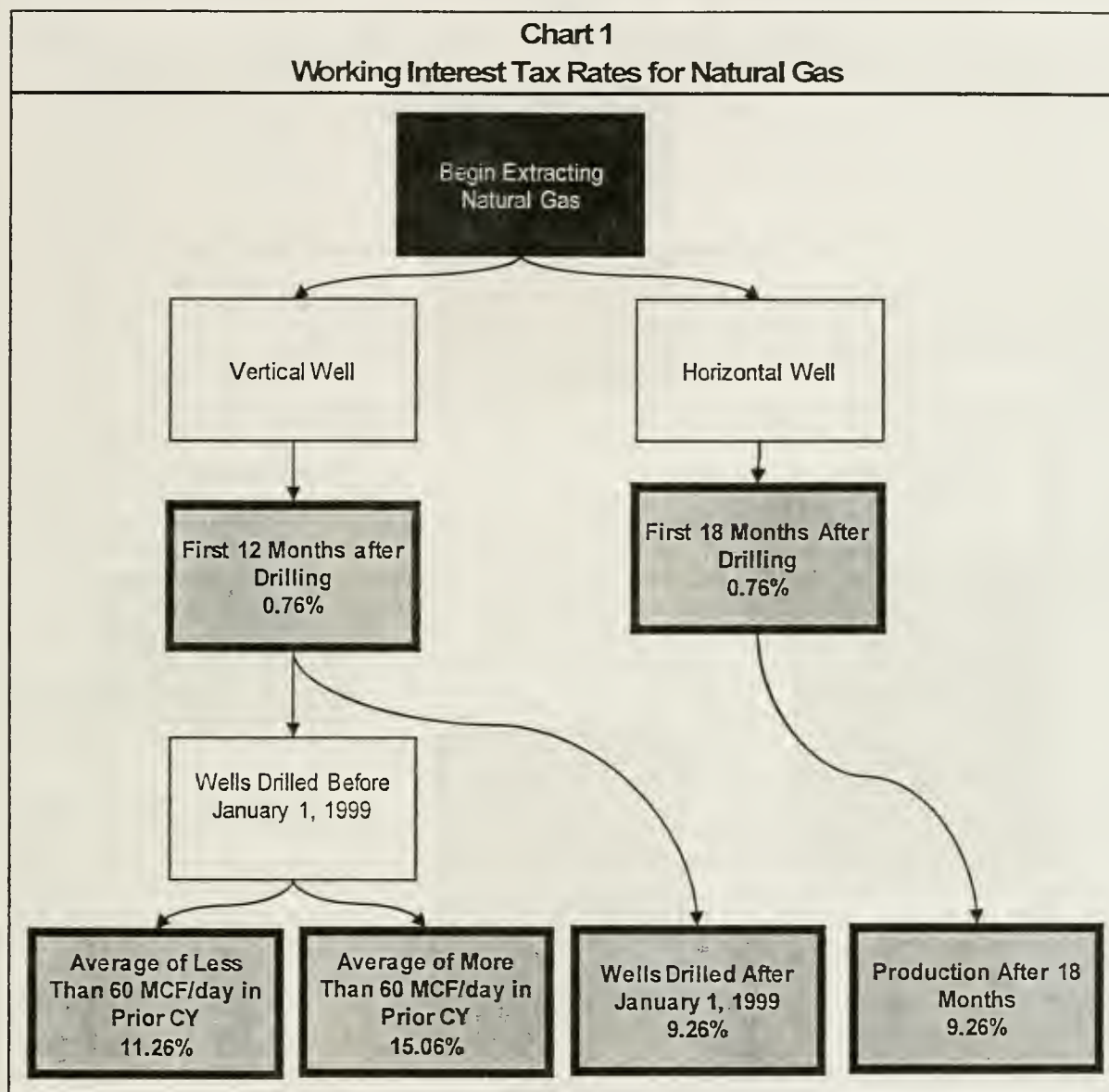
The varying tax rates for oil and natural gas production established in 15-36-331, MCA, are listed in table 2.

Table 2 Oil and Natural Gas Tax Rates by Well Category and Interest					
Product	Well Category	Working Interest		Royalty Interest	
		Production Tax	Total Tax	Production Tax	Total Tax
Gas	New Horizontal 0-18 Months	0.50%	0.76%	14.80%	15.06%
	After 18 Months	9.00%	9.26%	14.80%	15.06%
	New Vertical 0-12 Months	0.50%	0.76%	14.80%	15.06%
	Vertical Post-1999	9.00%	9.26%	14.80%	15.06%
	Vertical Pre-1999 Stripper	11.00%	11.26%	14.80%	15.06%
	Vertical Pre-1999 Regular	14.80%	15.06%	14.80%	15.06%
Oil	New Vertical 0-12 Months	0.50%	0.76%	14.80%	15.06%
	New Horizontal 0-18 Months	0.50%	0.76%	14.80%	15.06%
	Horizontal Recompletion 0-18 Months	5.50%	5.76%	14.80%	15.06%
	Post-1999 Regular	9.00%	9.26%	14.80%	15.06%
	Pre-1999 Regular	12.50%	12.76%	14.80%	15.06%
	Stripper Exemption (WTI < \$38/bbl)	0.50%	0.76%	14.80%	15.06%
	Stripper Exemption (WTI > \$38/bbl)	6.00%	6.26%	14.80%	15.06%
	Stripper ¹	5.50%	5.76%	14.80%	15.06%
	Stripper ¹ 10-15 Bbl/Day	9.00%	9.26%	14.80%	15.06%
	Incremental Secondary ^{1&2}	8.50%	8.76%	14.80%	15.06%
	Incremental Tertiary ^{1&2}	5.80%	6.06%	14.80%	15.06%

1 Applies only when average price of WTI < \$30/bbl
2 Applies only to increment of increased production

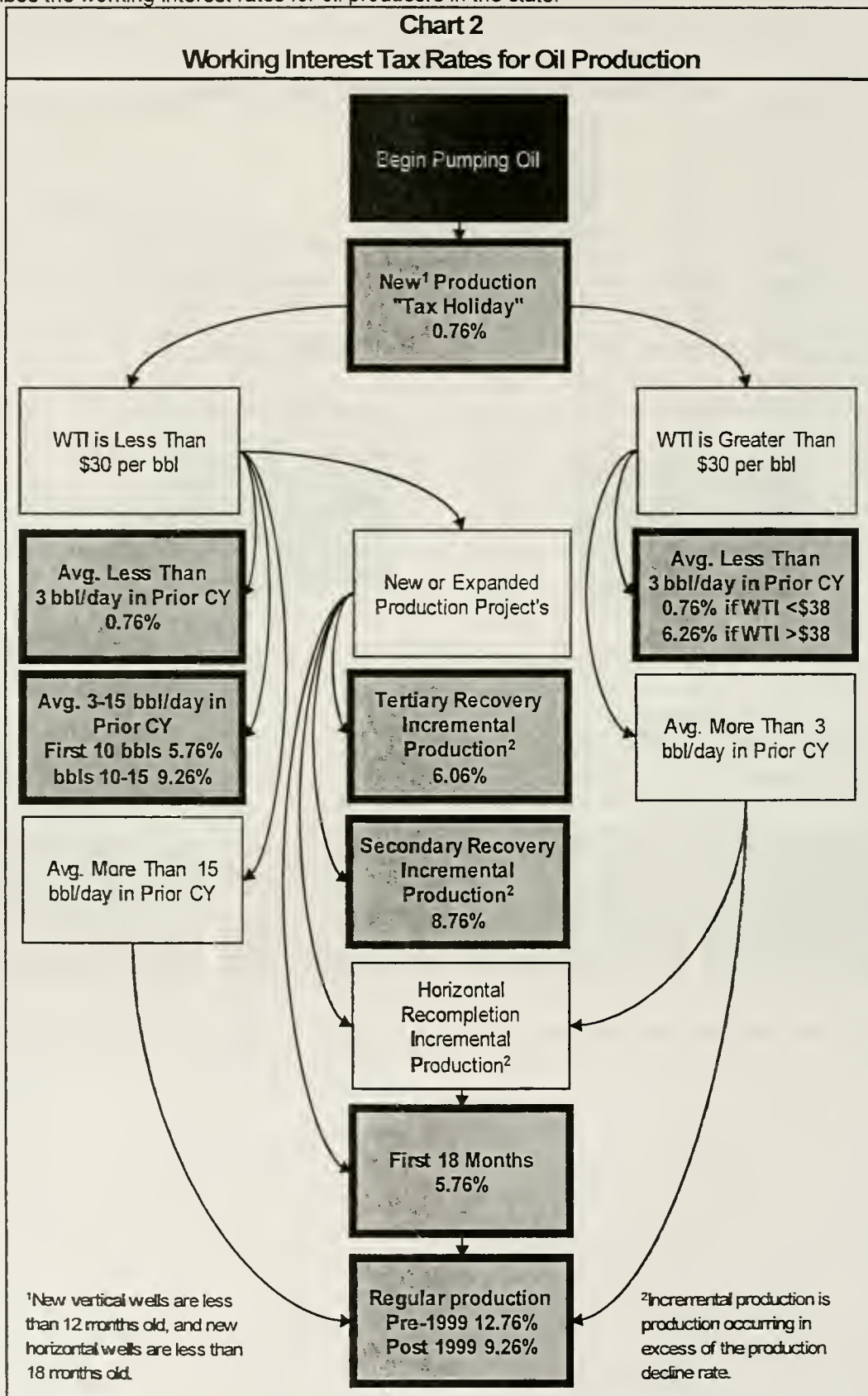
Table 2 shows the original tax rate as well as the combined tax rate when the Board of Oil and Gas Conservation's (BOGC) privilege and license tax of 0.09% and the tax of 0.17% distributed to the Oil & Gas Natural Resource Account are added. The tax rate on royalties is constant regardless of any of the stipulation in the working interest tax rate. The working interest tax rates, however, have many stipulations that can affect the actual tax rate. The following charts illustrate the needed circumstances that would allow each of the working interest tax rates for both oil and natural gas.

Chart 1 illustrates the different tax rates for working interest natural gas extraction.



The grey boxes indicate a tax rate, while the white boxes represent criteria that must be achieved in order to reach the varying tax rates.

Chart 2 describes the working interest rates for oil producers in the state.



Risks and Significant Factors

- Price
 - The prices received by Montana oil producers are not the same as the national or international prices, however, the prices are related and move together. Oil prices have been very volatile, and continued variation will have a direct effect on the revenues seen by the state.
 - Prices of both oil and natural gas on global markets have fluctuated in the past; with oil being priced worldwide in dollars, supply-demand fluctuations will not fully account for severance tax revenues.
- Production
 - Oil production increased over 110% from FY 2003 to FY 2007.
 - Production has flattened since FY 2007, mostly due to the maturity of the Elm Coulee field, which lies within the Bakken formation.
 - New technologies, both in discoveries and in recovery methods have made Elm Coulee very productive.
 - In April of 2008, the United States Geological Service (USGS) released an updated estimate of the Bakken formation located in North Dakota and Montana which raised the potentially recoverable oil 25 fold to over 3 billion barrels, with over 1 billion barrels in Montana
 - The analysis uses conservative short-term production rates that account for the maturing nature of the Elm Coulee field; but the potential for increased revenue, as presented in the USGA's findings, could be substantial over the long run.
- Pipeline Constraints
 - Beginning around FY 2006, the increased production in the Bakken formation led to overcrowded pipelines in the area, and as a result, a sizable differential in the prices received by Montana producers versus national benchmark prices grew to a high of \$13 per barrel. While extensive work has expanded pipeline capacity in the Montana-North Dakota region, there remains the possibility that a significant price differential could occur again.

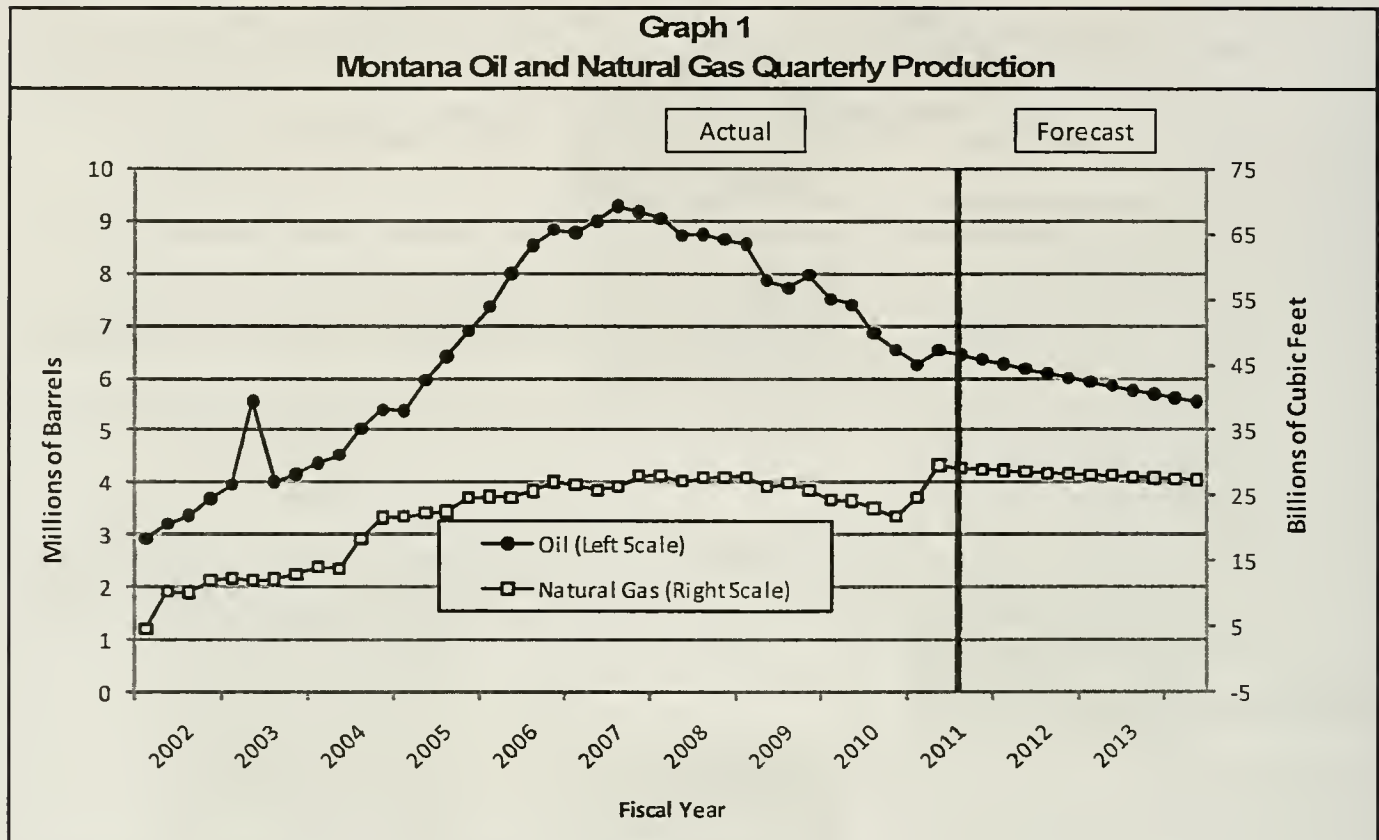
Forecast Methodology

The oil and natural gas tax revenue is forecast in three main steps:

Step 1. Estimate production by tax type

- Estimate the production for Richland County (the Elm Coulee formation lies exclusively in Richland County) and classify each producer in that area into the appropriate tax category.
- Estimate oil production for the rest of the state by tax category.
- Estimate natural gas production for the state as a whole.

Graph 1 shows the actual and projected quarterly production levels of oil and natural gas in Montana from FY 2002 through FY 2013.



As Graph 1 shows, oil production has been leveling off since mid-2006 with the maturation of the Elm Coulee field. While this flattening trend is expected to continue through FY 2013 this forecast does not take into account large production increases that are possible given such a large increase in the estimated recoverable oil by the USGS.

Step 2. Estimate price of oil and natural gas.

There are many factors that are applicable to the price received by oil producers. Oil prices vary across the state as the quality and access to infrastructure are not uniform statewide. Oil prices were estimated in phases. Richland County oil prices were estimated separately, and then all other counties oil price was estimated based on the respective relationship to West Texas Intermediate (WTI) price. Table 3 shows the actual weighted average price received by Montana oil producers for FY 2002 through FY 2010 and forecast prices for FY 2011 through FY 2013. The table also shows the average WTI price for the same period and the Global Insight's forecast values for FY 2011 through FY 2013.

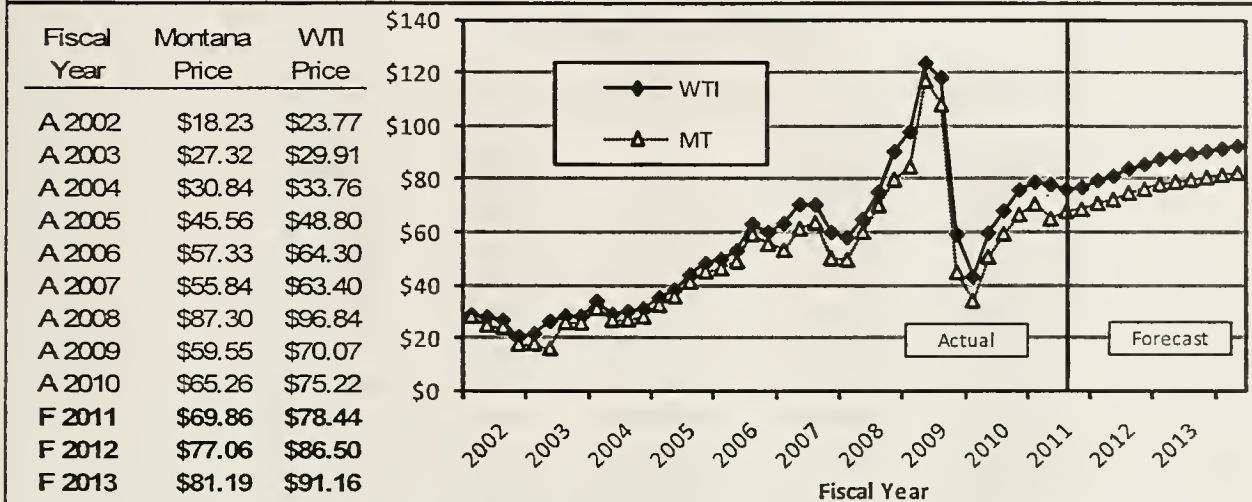
Oil

- Estimate the relationship between prices received in Montana and the WTI price, and then assume the relationship will remain the same
- Apply the price derived from the Global Insight forecast of the WTI price to the oil production to calculate gross value.

Natural Gas

- Estimate the relationship between prices received in Montana and the price received by national producers of natural gas and assume the relationship will continue in the future.
- Apply the price derived from the Global Insight forecast of the price received by national natural gas producers to calculate gross value.

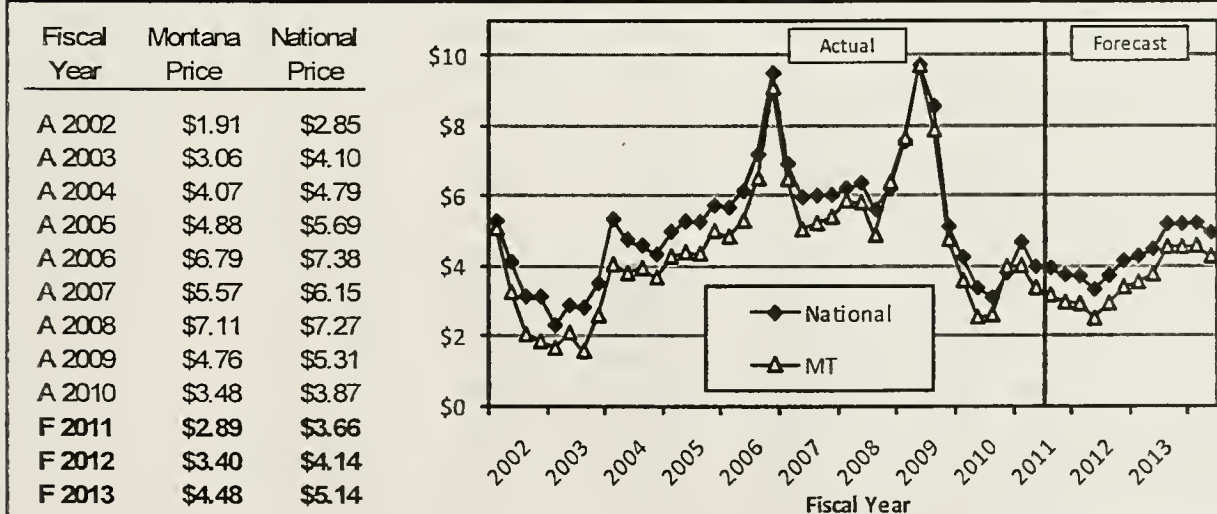
Table 3
Montana and West Texas Intermediate Oil Prices
(Dollars per Barrel)



The graph on the right in Table 3 shows the quarterly relationship between Montana oil prices and the WTI price.

Table 4 shows the actual weighted average price per thousand cubic feet (MCF) received by Montana natural gas producers for FY 2002 through FY 2010, and forecast values for FY 2011 through FY 2013. Table 4 also shows the national price per MCF, as well as Global Insight's forecast for FY 2011 through FY 2013.

Table 4
Montana and National Natural Gas Prices
(Dollars per MCF)



Step 3. Determine tax revenue by category.

- Estimate the percentages of the gross value that will be working interest and the percentage that will be taxable royalty value.
- Apply the appropriate tax rate to yield total tax revenue.

Table 5 through Table 7 shows the forecast and actual production of oil and natural gas; the gross value of that production; the average tax rate; and the total revenue generated from the combined oil and natural gas severance tax for FY 2002 through FY 2013.

Table 5 Montana Oil Revenue (\$ millions)					
Fiscal Year	Millions of Barrels of Oil ¹	Gross Value	Average Tax Rate	Tax Revenue	
A 2002	16.577	\$291.019	X 9.78%	=	\$28.463
A 2003	17.072	\$449.772	X 9.63%	=	\$43.321
A 2004	21.755	\$649.382	X 9.01%	=	\$58.480
A 2005	28.649	\$1,270.369	X 7.87%	=	\$100.032
A 2006	35.104	\$1,961.437	X 7.44%	=	\$145.955
A 2007	36.207	\$1,970.524	X 8.22%	=	\$161.923
A 2008	33.800	\$2,875.868	X 9.13%	=	\$262.637
A 2009	30.591	\$1,773.945	X 9.75%	=	\$172.962
A 2010	26.172	\$1,661.058	X 10.37%	=	\$172.187
F 2011	25.240	\$1,703.976	X 10.58%	=	\$180.337
F 2012	23.873	\$1,776.320	X 10.71%	=	\$190.245
F 2013	22.636	\$1,772.995	X 10.81%	=	\$191.715

Table 6 Natural Gas Production Revenue (\$ millions)					
Fiscal Year	Billions of cubic Feet of Gas ¹	Gross Value	Average Tax Rate	Tax Revenue	
A 2002	46.727	\$85.725	X 9.36%	=	\$8.025
A 2003	53.099	\$154.743	X 9.73%	=	\$15.062
A 2004	84.251	\$326.870	X 9.37%	=	\$30.613
A 2005	96.663	\$448.915	X 8.91%	=	\$39.995
A 2006	105.239	\$680.440	X 8.68%	=	\$59.044
A 2007	109.660	\$583.074	X 8.34%	=	\$48.626
A 2008	109.879	\$748.689	X 8.12%	=	\$60.783
A 2009	101.389	\$460.485	X 9.14%	=	\$42.093
A 2010	99.226	\$328.613	X 9.92%	=	\$32.609
F 2011	115.634	\$318.129	X 9.81%	=	\$31.205
F 2012	113.019	\$366.152	X 9.77%	=	\$35.781
F 2013	110.627	\$472.159	X 9.74%	=	\$45.975

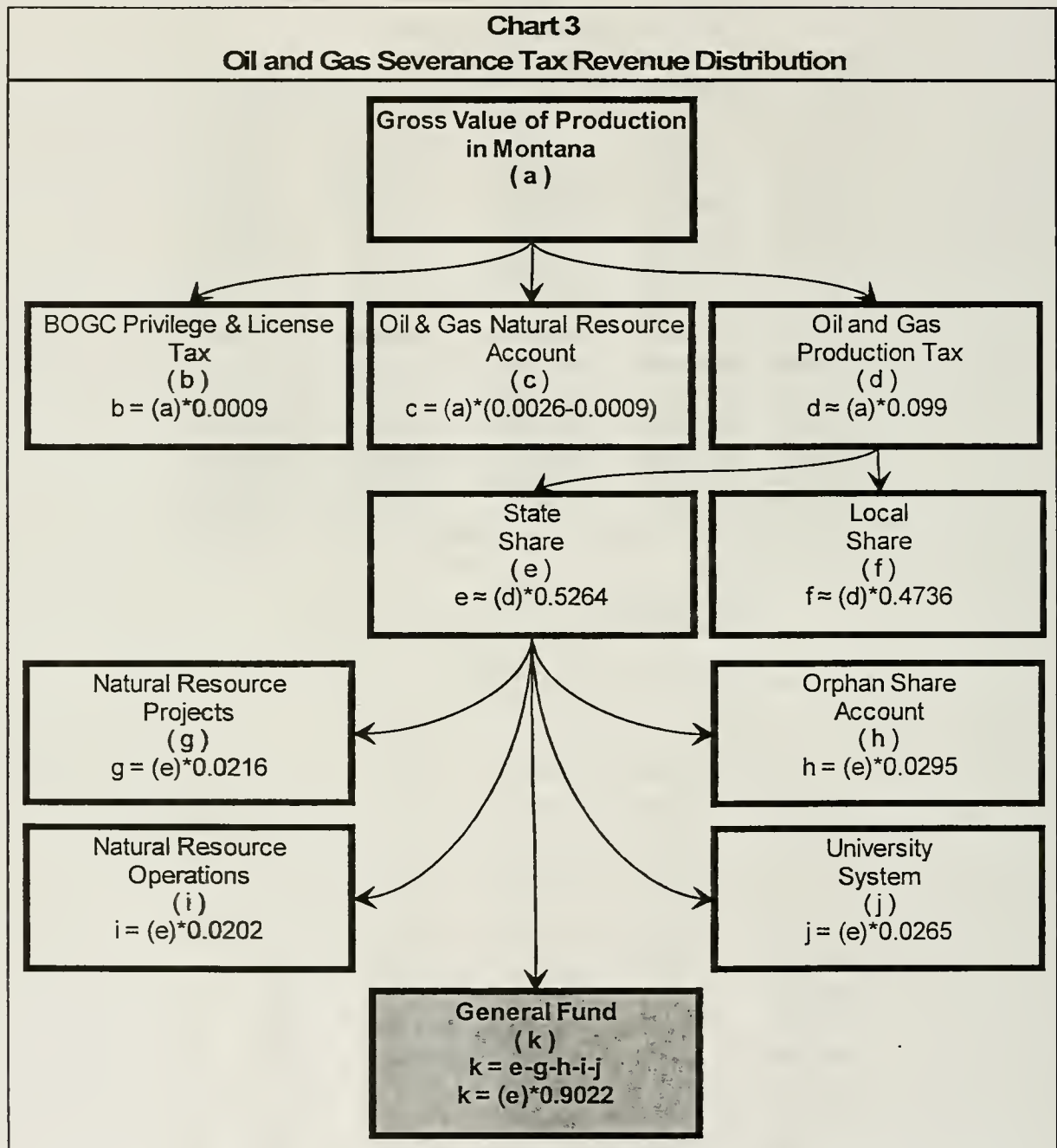
¹ Includes non-taxable royalty production such as production from federal leases.

Table 7
Montana Oil and Gas Tax Revenue
(\$ millions)

Fiscal Year	Oil Revenue	Natural Gas Revenue	Audits, Penalties, & Interest	Total Revenue
A 2002	\$28.463 +	\$8.025 +	\$0.221 =	\$36.709
A 2003	\$43.321 +	\$15.062 +	\$2.436 =	\$60.819
A 2004	\$58.480 +	\$30.613 +	\$1.688 =	\$90.780
A 2005	\$100.032 +	\$39.995 +	\$1.127 =	\$141.155
A 2006	\$145.955 +	\$59.044 +	\$1.429 =	\$206.428
A 2007	\$161.923 +	\$48.626 +	\$1.242 =	\$211.791
A 2008	\$262.637 +	\$60.783 +	\$3.168 =	\$326.588
A 2009	\$172.962 +	\$42.093 +	\$5.221 =	\$220.276
A 2010	\$172.187 +	\$32.609 +	\$1.395 =	\$206.191
F 2011	\$180.337 +	\$31.205 +	\$1.500 =	\$213.042
F 2012	\$190.245 +	\$35.781 +	\$1.500 =	\$227.526
F 2013	\$191.715 +	\$45.975 +	\$1.500 =	\$239.190

Distribution

Oil and natural gas revenue is distributed in accordance with 15-36-331, MCA. Chart 3 is a graphic illustration of how the revenues are distributed.



The Board of Oil and Gas Conservation (BOGC) Privilege and License tax is currently set at 0.09% of the gross value of oil and natural gas production. The tax rate for the tax revenue that goes to the Oil & Gas Natural Resource Account is equal to the difference between 0.26% and the rate set by the BOGC, or in this case 0.17%. The tax revenue that goes to the state depends on the type of tax rate applied to the production. In FY 2010 the average severance tax rate (excluding the revenue for the BOGC and the Oil and Gas Natural Resource) was 9.12% for working interest owners and 14.08% for royalty owners. The weighted average tax rate for both working interest owners and royalty owners was approximately 9.9% in FY 2010. The revenue is then divided between the state and the counties of production.

Prior to HB 748 (2003 Session) the distribution was based primarily on property tax mill levies. After HB 748 the counties and schools were each assigned a percentage of the severance tax revenue generated in their county they would receive. In FY 2010 the counties and schools received 47.36% of the remaining revenue and the state received 52.64%. In FY 2012 through FY 2013, the State share is then divided as follows:

- 2.16% to the Natural Resource Projects State Special Revenue Account
- 2.02% to the Natural Resource Operations State Special Revenue Account
- 2.95% to the Orphan Share Account
- 2.65% to the University System
- The remainder, 90.22%, is to be distributed to the general fund.

Table 8 shows the actual distribution of the oil and natural gas severance tax revenues for FY 2010, and forecast distributions for FY 2011 through FY 2013. In FY 2012, the distributions will change to the distributions mentioned above. In FY 2011 however, the state distribution is as follows:

- 1.23% to the Coal bed Methane Project Account
- 1.45% to the Natural Resource Projects State Special Revenue Account
- 1.45% to the Natural Resource Operations State Special Revenue Account
- 2.99% to the Orphan Share Account
- 2.65% to the University System
- and 90.23% to the State General Fund

Table 8
Oil and Gas Tax Revenue Distribution
(\$ millions)

Entity	Fiscal Year 2010 ¹	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Tax Revenue	\$206.286	\$213.042	\$227.526	\$239.190
BOGC	\$1.811	\$1.820	\$1.928	\$2.021
Oil & Gas Natural Resource Acct.	\$3.414	\$3.438	\$3.642	\$3.817
Local Share	\$95.231	\$98.926	\$105.673	\$111.099
State Share	\$105.830	\$108.858	\$116.283	\$122.254
Coal Bed Methane Protection Acct. (0.0%)	\$1.302	\$1.339	\$0.000	\$0.000
Natural Resource Projects Acct. (2.16%)	\$1.535	\$1.578	\$2.512	\$2.641
Natural Resource Operations Acct. (2.02%)	\$1.535	\$1.578	\$2.349	\$2.470
Orphan Share Acct. (2.95%)	\$3.164	\$3.255	\$3.430	\$3.606
University System (2.65%)	\$2.805	\$2.885	\$3.081	\$3.240
General Fund Share (90.22%)	\$95.491	\$98.223	\$104.910	\$110.297

¹Total revenue for FY 2010 does not match table 5 due to accrual reversals and amended tax returns.

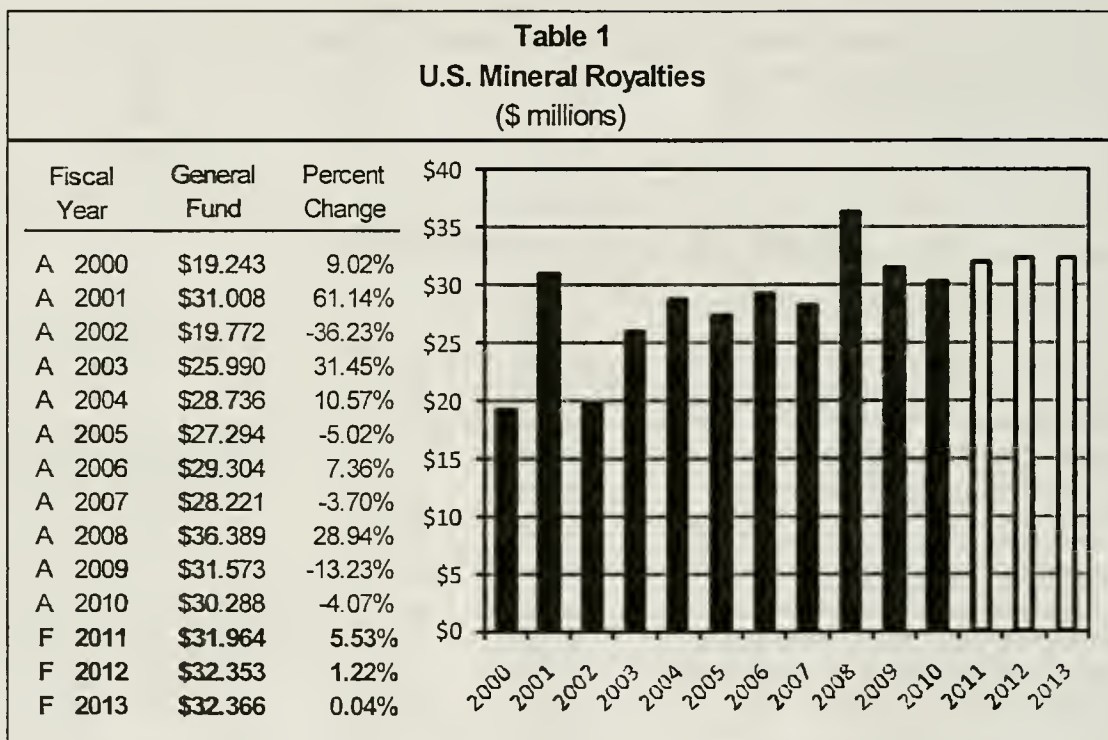
Data Sources

Montana oil and natural gas tax data was supplied by the Montana Department of Revenue's GENTAX system. Historic and forecast WTI prices, as well as historic and projected wellhead prices for natural gas are from Global Insight's November National Forecast. Supplemental data was obtained from the Board of Oil and Gas Conservation's website at <http://bogc.dnrc.mt.gov/default.asp>.

Revenue Description

In accordance with 30 USC, Sections 191, a portion of the revenue from minerals produced in Montana on federal land must be shared with the State of Montana. When the U.S. Government leases public lands for mineral production, it pays part of the income to the state where the leased land is located. In the past, Montana received 50% of the royalty revenue from coal, oil, and natural gas production on federal lands within the state. With the passage of the federal budget for FY 2009, the federal government increased their share to 52% and effectively decreased the state share to 48%. From the state share, 75% is deposited in the general fund and 25% is deposited in a state special revenue fund for mineral impacts in accordance with 17-3-240, MCA.

Table 1 shows revenue to the general fund from U.S. mineral royalties.



Receipts in FY 2001 include approximately \$8 million in payments for production in previous years that was collected due to audits. Without these audit collections, receipts would have been approximately \$23 million. Receipts in FY 2002 should have been higher, but \$1.7 million in royalties was paid late. This amount was recorded as an adjustment to the general fund ending fund balance rather than as revenue. There was also an abnormally large audit in FY 2010, which is anticipated to be a one-time event and not repeat into the future.

Prior to FY 2005, 12.5% of U.S. mineral royalty revenue was allocated to counties. Currently, 25% of the U.S. mineral royalty revenue is allocated to counties. General fund revenue from U.S. mineral royalties fluctuates as mineral prices and production levels change. Changes in revenue in recent years are primarily attributable to price changes.

Risks and Significant Factors

- Most royalty revenue is calculated as a percentage of the gross value of the minerals produced. As the price fluctuates, so will royalty revenue.

- As was seen with the passage of the FY 2009 federal budget, the congress can affect the amount of revenue that gets distributed to the state. Also changes in the federal Mineral Management Service may affect the timing of some of the revenues flows from year to year.

Forecast Methodology

U.S. mineral royalty revenue is calculated in four steps.

Step 1. The gross value of production on federal land is forecast using the growth rates from other natural resource tax estimates.

The income generated from coal revenue is estimated using the growth rate of the gross coal income from the *Coal Severance Tax* revenue estimate. The oil and natural gas income is also estimated using the growth rate estimated for oil and natural gas gross income in the *Oil and Gas Severance Tax* revenue estimate. Rental and bonus income is estimated using the average of FY 2004 through FY 2007. FY 2008 and FY 2009 were not used as they saw unusually high levels of revenue that are not expected to continue. Other income includes royalty income from sulfur and other types of mineral extraction. It is estimated using the average of FY 2005 through FY 2007 excluding FY 2008 due to its abnormally high level.

Step 2. The average royalty rate for each type of mineral production is then estimated. Multiplying the gross value by the estimated royalty rate yields the total royalty revenue from federal lands.

Step 3. The average percent remitted to the state is then estimated for each type of commodity. Although the requirement is for the federal government to remit 48% of the revenue to the state in FY 2009, the actual percentages are not equal to 48%. This is primarily due to the way federal leases are not all disbursed in the same manner. For example, a federal lease could be on General Services Administration (GSA), a federal agency of the US Government land, in which case the revenue would be distributed 100% to the U.S. Treasury. Federal leases on Indian reservations and timing issues between fiscal years can also contribute to variation. The average percentage over the last five years was used to estimate revenue for FY 2011 through FY 2013.

Step 4. The total royalty revenue is then multiplied by the state's share to yield total state revenue.

Table 2 shows the actual and forecast revenues, royalty rates, and state revenue from federal mineral royalties for FY2001 through FY 2013. Due to the federal fiscal year, FY 2010 data is not available; therefore FY 2010 is also estimated.

Table 2 U.S. Mineral Royalty Revenue (\$ millions)										
Fiscal Year ¹	Coal Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue	Oil Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue
A 2008	\$281.414	12.15%	\$34.201	50.85%	\$17.393	\$354.921	10.62%	\$37.685	44.99%	\$16.955
A 2009	\$262.330	11.96%	\$31.366	62.23%	\$19.518	\$180.710	10.87%	\$19.648	51.67%	\$10.153
A 2010	\$358.895	11.61%	\$41.675	49.80%	\$20.754	\$223.490	10.59%	\$23.657	46.72%	\$11.053
F 2011	\$395.286	11.61%	\$45.900	49.80%	\$22.859	\$229.104	10.59%	\$24.252	46.72%	\$11.331
F 2012	\$386.645	11.61%	\$44.897	49.80%	\$22.359	\$237.148	10.59%	\$25.103	46.72%	\$11.729
F 2013	\$367.352	11.61%	\$42.657	49.80%	\$21.243	\$235.666	10.59%	\$24.946	46.72%	\$11.656
Fiscal Year ¹	Natural Gas Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue	Rentals and Bonuses	Royalty Rate	Royalty Revenue	State Percentage	State Revenue
A 2008	\$186.180	10.96%	\$20.414	51.23%	\$10.458	\$8.786	100%	\$8.786	44.72%	3.929
A 2009	\$120.850	10.94%	\$13.226	47.95%	\$6.342	\$8.906	100%	\$8.906	45.11%	\$4.018
A 2010	\$91.138	11.76%	\$10.721	44.85%	\$4.808	\$14.046	100%	\$14.046	48.18%	\$6.767
F 2011	\$78.422	11.76%	\$9.225	44.85%	\$4.137	\$6.057	100%	\$6.057	48.18%	\$2.918
F 2012	\$103.108	11.76%	\$12.129	44.85%	\$5.439	\$6.057	100%	\$6.057	48.18%	\$2.918
F 2013	\$118.526	11.76%	\$13.943	44.85%	\$6.253	\$6.057	100%	\$6.057	48.18%	\$2.918
Fiscal Year ¹	Other Revenue	Royalty Rate	Other Revenue	State Percentage	State Revenue	State Coal Revenue	State Oil Revenue	State Gas Revenue	Rents, Bonuses, & Other	Total State Revenue
A 2008	\$2.154	NA	\$2.154	9.71%	\$0.209	\$17.393 +	\$16.955 +	\$10.458 +	\$4.138 =	\$48.944
A 2009	\$14.798	NA	\$14.798	44.11%	\$6.527	\$19.518 +	\$10.153 +	\$6.342 +	\$10.545 =	\$46.559
A 2010	\$1.994	NA	\$1.994	19.19%	\$0.383	\$20.754 +	\$11.053 +	\$4.808 +	\$7.149 =	\$43.765
F 2011	\$2.610	NA	\$2.610	37.99%	\$0.991	\$22.859 +	\$11.331 +	\$4.137 +	\$3.910 =	\$42.237
F 2012	\$2.610	NA	\$2.610	37.99%	\$0.991	\$22.359 +	\$11.729 +	\$5.439 +	\$3.910 =	\$43.437
F 2013	\$2.610	NA	\$2.610	37.99%	\$0.991	\$21.243 +	\$11.656 +	\$6.253 +	\$3.910 =	\$43.061

¹Fiscal year refers to the federal fiscal year from Oct. 1 to Sep. 30 of the following year.

The bottom right corner shows the actual summation of state revenue from the five sources for FY 2001 through FY 2009 and forecast values for FY 2010 through FY 2013.

Distribution

U.S. mineral royalties are distributed to the general fund and the Mineral Impact Account in accordance with 17-3-240, MCA. Table 3 shows the estimated distribution of U.S. mineral royalty revenue to the state of Montana for FY 2011 through FY 2013.

Table 3 U.S. Mineral Royalty Revenue Distribution (\$ millions)			
Fiscal Year	General Fund (75%)	Mineral Impact (25%)	Total
F 2011	\$31.964	\$10.655	\$42.619
F 2012	\$32.353	\$10.784	\$43.137
F 2013	\$32.366	\$10.789	\$43.155

Data Sources

Historic general fund and Mineral Impact Account amounts are from SABHRS. Federal mineral statistics are available at <http://www.mmm.mms.gov/MRMWebStats/Home.aspx>.

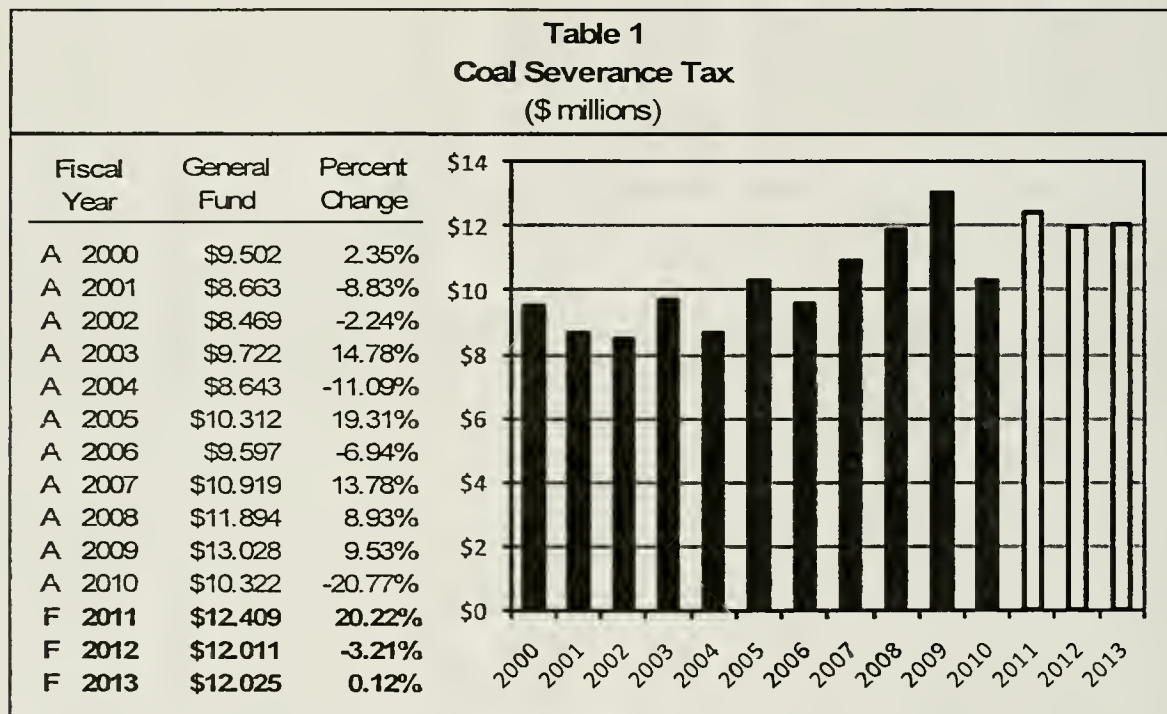
Coal Severance Tax

2013 Biennium

Revenue Description

In accordance with 15-35-103, MCA, Montana levies a tax on the value of coal produced in Montana. The tax rate on coal varies with heat content of the coal and the type of mine (open pit or underground). Each producer is exempt from tax on 20,000 tons per year, and mines producing less than 50,000 tons per year are exempt from the tax.

Table 1 shows actual coal severance tax revenue to the general fund for FY 2000 through FY 2010, and forecast revenue for FY 2010 through FY 2013.



In FY 2000 through FY 2002, the general fund received 26.79% of the tax. Under the provisions of HB 10 (2002 special session) the general fund received 33.04% of the tax revenue. In FY 2004 and FY 2005, the general fund allocation changed to 27.4% under HB 18 (2002 special session). HB 688 (2007 Session) established that beginning in FY 2008, \$250,000 will be allocated to the coal and uranium mine permitting and reclamation program. Starting in FY 2010 through the first quarter of FY 2014, SB 100 (2008 Session) increased the percentage to the Coal Natural Resource Account from 2.9% to 5.8%. After the first quarter of FY 2014, the percentage reverts to 2.9%

Risks and Significant Factors

- In FY 2010, Arch Coal Company purchased the leasing rights to the Otter Creek coal tracks near Ashland, Montana, with the intent to develop a new coal mine. It is estimated that the new coal mine will pay over \$2 billion in severance taxes over the life of the mine. However, it is not anticipated that the mine will be producing coal in the forecast period, and as a result it is not included in the revenue estimate. If the mine is developed sooner than anticipated, this could significantly increase revenues.
- One of the largest uses for coal is in the production of electricity from coal fired power plants. If the federal government were to pass cap and trade legislation, this could negatively impact the price of coal, and thus negatively impact severance tax revenue. This scenario was not incorporated into the current revenue estimate.

Forecast Methodology

There are four main steps in forecasting coal severance tax revenue:

- Step 1.** The quarterly prices are estimated using Global Insight's forecast for determining the rate at which coal prices will increase. The heating quality of coal produced in Montana varies by mine. Coal with higher heating qualities receives a higher price and thus may pay more in taxes and vice versa.
- Step 2.** Coal production is then estimated using responses from a coal survey sent to coal producers currently paying the severance tax.
- Step 3.** The deductions and exemptions are then estimated to yield taxable coal production. Deductions and exemptions include the first 20,000 tons produced in a year as well as the deductions for other state and federal tax liabilities related to coal production, such as the Black Lung Tax, the Coal Gross Proceeds tax, and others.
- Step 4.** The appropriate tax rate is then applied to yield total coal severance tax revenue. The tax rate varies depending on the properties of the coal and the type of production. If the average tax rate goes down, then this could have a negative effect on tax revenue and vice versa.

Table 2 shows the actual coal production, the average price per ton, total deductions, taxable revenue, the average tax rate, and total tax revenue for FY 2008 and FY 2010, and estimated values for FY 2011 through FY 2013.

Table 2 Coal Severance Tax (millions)						
	FY 2008	FY 2009	FY2010	FY 2011	FY 2012	FY 2013
Tons Produced	37.504	35.902	34.809	40.270	41.760	42.249
Average FOB Price	x \$11.47	x \$12.45	x \$13.61	x \$13.69	x \$13.24	x \$13.32
Gross Revenue	\$430.303	\$447.124	\$473.872	\$551.217	\$552.852	\$562.836
Exemptions	- \$128.627	- \$132.891	- \$134.499	- \$153.043	- \$149.242	- \$151.290
Taxable Revenue	\$301.676	\$314.233	\$339.373	\$398.174	\$403.610	\$411.546
Average Tax Rate	x 14.92%	x 14.86%	x 14.08%	x 13.31%	x 12.72%	x 12.49%
Tax Revenue	\$45.022	\$46.683	\$47.791	\$52.989	\$51.323	\$51.383

Distribution

Coal Severance tax is distributed in accordance with 15-35-108, MCA. Table 3 shows the distribution of actual and estimated coal severance tax revenue for FY 2010 through FY 2013.

Table 3 Coal Severance Tax Revenue Allocation by Fund (\$ millions)				
Entity	FY 2010 Actual¹	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected
Coal Tax Trust Fund (50%)	\$22.089	\$26.494	\$25.662	\$25.691
Long Range Building Program Account (12%)	\$5.301	\$6.359	\$6.159	\$6.166
Local Impacts (Shared Account) (5.46%)	\$2.412	\$2.893	\$2.802	\$2.806
Coal Natural Resource Account (5.80%)	\$2.544	\$3.073	\$2.977	\$2.980
Parks Trust Fund (1.27%)	\$0.561	\$0.673	\$0.652	\$0.653
Renewable Resource Loan Debt Service Fund (0.95%)	\$0.420	\$0.503	\$0.488	\$0.488
Capitol Art Protection Trust Fund (0.63%)	\$0.278	\$0.334	\$0.323	\$0.324
DEQ Mine Permitting and Restoration (\$0.250)	\$0.250	\$0.250	\$0.250	\$0.250
General Fund	\$10.322	\$12.409	\$12.011	\$12.025
Total Coal Severance Tax	\$44.177	\$52.989	\$51.323	\$51.383

¹Total revenue does not match table 2 due to accrual adjustments

Data Sources

Historical coal statistics were obtained for the Department of Revenue coal severance tax returns. Forecast production levels are from survey responses from the coal companies which pay the coal severance tax. Forecast coal inflation factors were obtained from Global Insight.

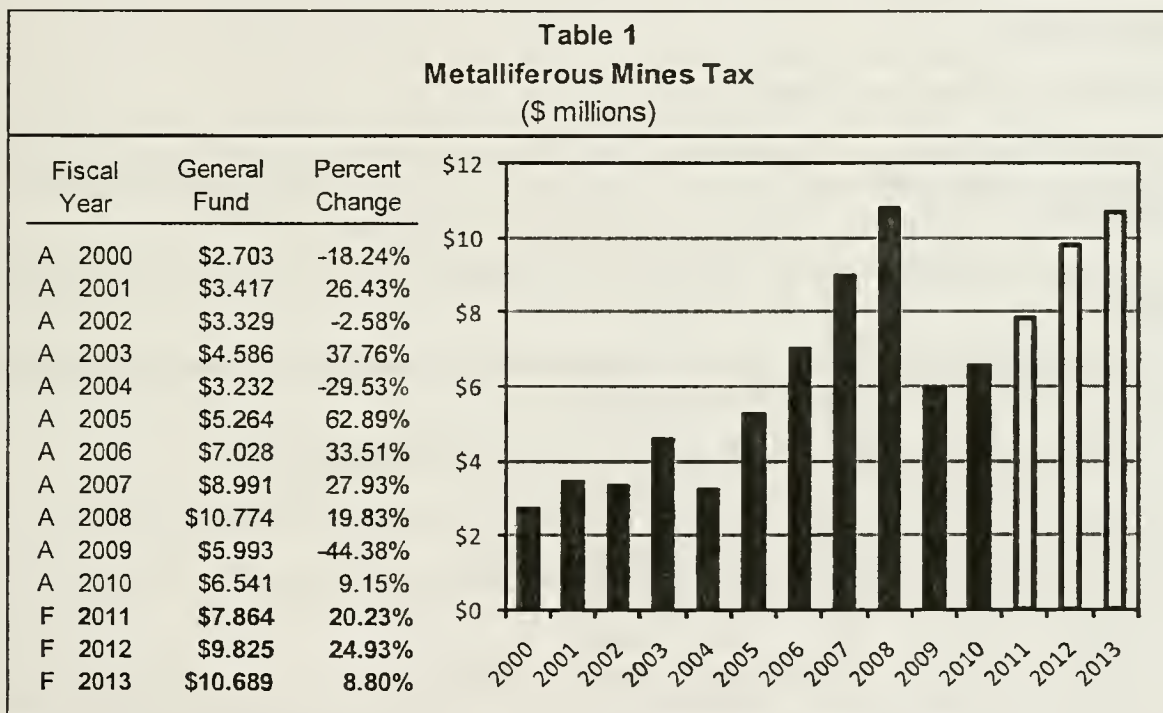
Metalliferous Mines License Tax

2013 Biennium

Revenue Description

Montana levies a tax on the gross value of metals mined in the state under 15-37-101, MCA. Gross value, as defined in 15-23-801, MCA, is the market value of the refined product, less the costs of transporting the unrefined product and refining it. The first \$250,000 of gross value is exempt from the tax, which exempts small mines from the tax. The tax rate for production beyond \$250,000 depends on the mineral and the amount of processing at the mine. Concentrate, which is non-smelted ore that may have undergone mechanical processing, has a tax rate of 1.81%. Metals that have been partially or completely separated from impurities by smelting, but may not have had the individual metals separated, have a tax rate of 1.6% (15-37-103, MCA).

Revenues from the metalliferous mines license tax are divided between the state and counties that have fiscal or economic impacts from large-scale mining. The state general fund currently receives 57% of the revenue. Table 1 shows general fund revenue or FY 2000 through FY 2010, and projected revenue for FY 2011 through FY 2013.



Prior to FY 2006 the general fund received 58%, except for FY 2003 when the general fund received 65% of the tax revenue.

Revenue from the metal mines tax has varied because of changes in the tax payment due date, changes in production, and price variation. Through December 31, 2002, the tax was paid annually. Beginning January 1, 2003, the tax is paid semiannually. This resulted in taxes on eighteen months of production being recorded as revenue in FY 2003. Revenue increased from FY 2004 through FY 2008 due to production increases with significant price increases in FY 2006 through FY 2008, price declines and mine closures during FY 2009 and FY 2010 period significantly reduced revenues. Price recovery and mine re-openings are anticipated to increase tax revenues during the forecast period.

Risks and Significant Factors

- The price of metals and other natural resources has varied substantially in recent years. Price increases will generate greater revenues and price decreases will result in less revenue.

- Production by the major companies that pay the tax has varied over the years. New discoveries, new mining ventures, and management decisions by currently producing firms, all influence production levels with corresponding impacts on tax revenues.
- The operating permit of an existing mine has been extended, and production is anticipated to return to prior levels.
- There are significant financing deals going on that would rehabilitate or expand existing mines. If these deals were to close they would bring production online within the forecast period. This new production is not contemplated in the forecast period.
- There are four main factors in determining the revenue from metal mines.
 - 1) The relative proportion of the share of each type of metal in the gross value of production will have an impact on overall revenue. Currently, most Montana producers concentrate their production on gold, silver, platinum, palladium, rhodium, copper, and molybdenum.
 - 2) The price of each of these metals is positively related to the total tax revenue.
 - 3) The amount of each metal produced is also positively related to total tax revenue.
 - 4) Allowable deductions reduce total tax revenue. Metal producers are allowed to deduct transportation, treatment, and refining costs from the gross value of production to yield taxable value of production. As deductions rise, tax revenue will go down, and vice versa.

Forecast Methodology

There are five steps in estimating metal mines tax revenue:

- Step 1.** An inflation factor for each of the different types of metals is calculated based on changes in New York Mercantile Exchange (NYMEX) futures contracts and forecast metal and metal products inflation factors from Global Insight.
- Step 2.** The amount of production is estimated based on survey responses of the major metal producers in the state of Montana.
- Step 3.** The transportation, and refining and treatment costs deductions are estimated for each of the producing mines. These are deducted from the gross value of the minerals.
- Step 4.** The estimated average tax rate is then applied to each company to yield tax liability.
- Step 5.** The tax liability of the companies is then added together for each fiscal year to yield total tax revenue.

Table 2 shows the projected average fiscal year Montana prices for each type of metal for FY 2011 through FY 2013.

Table 2 Montana Average Metal Prices								
Fiscal Year	Price Per Ounce					Price Per Pound		
	Rhodium	Platinum	Gold	Palladium	Silver	Molybdenum	Nickle	Copper
F 2011	\$2,788	\$1,531	\$1,263	\$515	\$20.17	\$16.30	\$9.15	\$3.18
F 2012	\$2,762	\$1,520	\$1,278	\$509	\$21.95	\$17.78	\$9.92	\$3.47
F 2013	\$2,832	\$1,558	\$1,282	\$538	\$22.97	\$18.51	\$10.22	\$3.61

The prices on the left side of the table are listed in dollars per ounce, while the prices listed on the right side of the table are in dollars per pound. The London Metals Exchange future (cash) prices, quoted in dollars, as of November 5, 2010 and reported on www.kitco.com were used to calculate price changes for copper, nickel, gold, platinum, palladium, palladium, silver, and copper through CY 2011. These were then extended using the Global Insight forecast producer price index for metals and metal products to further extend the projected prices. As a platinum group metal, rhodium was assumed to move with the average projected change in platinum and palladium prices. Molybdenum was

assumed to move in concert with projected copper prices. Prices for lead and zinc were omitted as no anticipated production data was available. If lead and zinc production were to materialize, these estimates would be under stated. of all other types of metals produced in Montana.

Table 3 shows the gross value of all metal products in Montana, deductions taken by the metal producers, the average tax rate, and the total tax revenue generated for the metal mines license tax.

Table 3 Metal Mines Production Forecast (\$ millions)					
Fiscal Year	Gross Value	Deductions		Average Tax Rate	Tax Revenue
A 2004	(\$408.701	- \$24.820	) X	1.65%	= \$6.342
A 2005	(\$654.962	- \$27.963	) X	1.70%	= \$10.687
A 2006	(\$793.024	- \$29.043	) X	1.71%	= \$13.102
A 2007	(\$1,033.514	- \$93.890	) X	1.71%	= \$16.057
A 2008	(\$1,303.294	- \$96.893	) X	1.71%	= \$20.688
A 2009	(\$677.558	- \$77.392	) X	1.69%	= \$10.121
A 2010	(\$770.797	- \$70.930	) X	1.71%	= \$11.971
F 2011	(\$883.188	- \$66.275	) X	1.69%	= \$13.797
F 2012	(\$1,099.050	- \$80.854	) X	1.69%	= \$17.236
F 2013	(\$1,192.170	- \$86.079	) X	1.70%	= \$18.753

Distribution

Table 4 shows the distribution of the metal mines tax to the various entities in accordance with 15-37-117, MCA.

Table 4 Total Collections and Allocation of Metal Mines Tax (\$ millions)							
Entity	Allocation Percentage	Actual FY 2008	Actual FY 2009 ¹	Actual FY 2010 ¹	Projected FY 2011	Projected FY 2012	Projected FY 2013
General Fund (57%)	57.0%	\$10.774	\$5.993	\$6.541	\$7.864	\$9.825	\$10.689
Hard-Rock Mining Impact Trust (2.5%)	2.5%	\$0.473	\$0.263	\$0.287	\$0.345	\$0.431	\$0.469
Impacted Counties (25.0%)	25.0%	\$4.726	\$2.628	\$2.869	\$3.449	\$4.309	\$4.688
Natural Resource Operations (7.0%)	7.0%	\$1.323	\$0.736	\$0.803	\$0.966	\$1.207	\$1.313
Hard-Rock Mining Reclamation Debt Service (8.5%)	8.5%	\$1.607	\$0.894	\$0.975	\$1.173	\$1.465	\$1.594
Total Collections	100.0%	\$18.902	\$10.514	\$11.476	\$13.797	\$17.236	\$18.753

¹ Totals do not match Table 3 due to accruals and amended returns

Data Sources

Historic Montana production, value, and deduction data was obtained from Department of Revenue tax records. Future production and deduction estimates were obtained from a survey of tax-paying metal mines producers. Price forecasts are based on Global Insight's metal and metal products inflation factors and futures contract prices from <http://www.kitco.com/ind/matlack/nov082010.html>

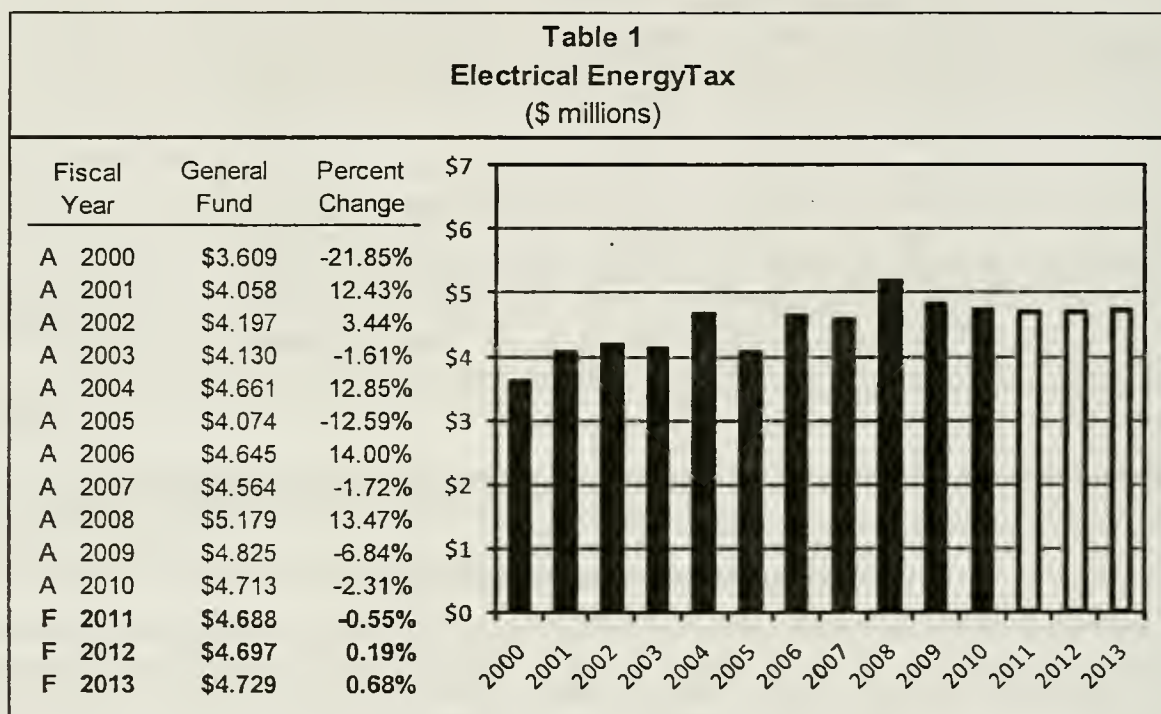
Electrical Energy Producer's License Tax

2013 Biennium

Revenue Description

In accordance with 15-51-101, MCA, Montana levies an electrical energy producer's license tax at a rate of \$0.0002 per kilowatt-hour (kWh). The tax applies to all electricity generated, manufactured, or produced in Montana for barter, sale, or exchange. Electricity generated for plant use is excluded from the tax. All electrical energy producer's license tax revenue is allocated to the general fund.

Table 1 shows actual general fund revenue collections from the electrical energy producer's license tax for FY 2000 through FY 2010, and the forecast for FY 2011 through FY 2013.



Risk and Significant Factors

- The greater the amount of electricity produced in the state, the greater the tax revenue, and vice versa.
- Accrual adjustments made at the end of the fiscal year have the potential to skew revenues. In FY 2002 accruals understated revenues by \$0.131 million. In FY 2004, accruals overstated revenues by \$0.198 million.
- There is significant new capacity coming online with three natural gas power plants under construction, significant wind power capacity being installed, and transmission lines to carry the new production under construction or in the planning stages. While the basis for increases in collections is well established, the challenge is specific timing. This estimate does not include this newly installed capacity explicitly. The estimated value of any one year's anticipated new production does not exceed \$0.170 million in tax collections.
- Electrical production increases with increases in economic activity.

Forecast Methodology

The electrical energy tax is forecast in two steps:

Step 1. Total taxable electricity production base is estimated from Department of Revenue tax records and projected based on the change in the Global Insight estimate of the industrial production sub-index for utilities in Montana.

Step 2. The tax rate of \$0.0002 per KWH is multiplied by the estimated amount of taxable electricity produced in the state to yield total tax revenue.

Table 2 shows the actual electricity production and tax revenue for FY 2005 through FY 2010, and forecast values for FY 2011 through FY 2013.

Table 2 Electricity Production Tax Revenue (\$ millions)			
Fiscal Year	kWh (millions)	Tax Rate	Tax Revenue ¹
A 2005	23,065.262 X	\$0.0002 =	\$4.613
A 2006	23,156.213 X	\$0.0002 =	\$4.631
A 2007	23,160.458 X	\$0.0002 =	\$4.631
A 2008	23,489.093 X	\$0.0002 =	\$4.698
A 2009	23,139.847 X	\$0.0002 =	\$4.628
A 2010	22,308.588 X	\$0.0002 =	\$4.462
F 2011	23,438.697 X	\$0.0002 =	\$4.688
F 2012	23,483.624 X	\$0.0002 =	\$4.697
F 2013	23,644.150 X	\$0.0002 =	\$4.729
¹ Total revenue does not match Table 1 due to accrual adjustments and amended returns.			

Distribution

The general fund receives 100% of the Electricity Production Tax.

Data Sources

Historical electricity data was provided by the Department of Revenue. Global Insight's October 2010 forecast of industrial production (sub-) index for utilities is used to forecast electricity production in the state.

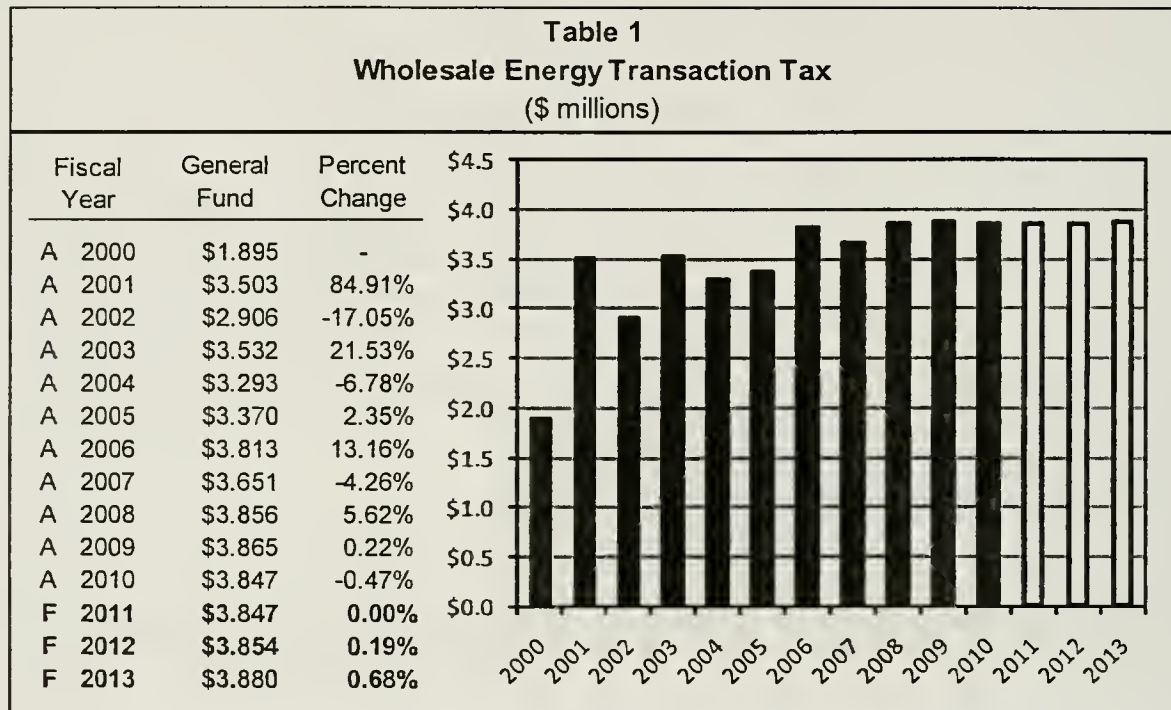
Wholesale Energy Transaction Tax

2013 Biennium

Revenue Description

In accordance with 15-72-104, MCA, Montana levies a wholesale energy transaction (WET) tax at a rate of \$0.00015 per kilowatt-hour (kWh) on electricity transmitted by a transmission service provider in the state. This became effective January 1, 2000.

Table 1 shows actual general fund collections from the WET tax for FY 2000 through FY 2010 and the projected values for FY 2011 through FY 2013.



HB 174 (1999 Legislative Session) enacted the tax, and it took effect on January 1, 2000. In FY 2000, the tax was only collected for half of the fiscal year.

Risks and Significant Factors

- There has been an increased investment in electricity transmission infrastructure in Montana. Currently the Montana Alberta Tie Ltd. (MATL) is under construction. MATL will link Montana to Canadian electricity markets and provide a conduit for wind generation infrastructure.
- New transmission projects and generation capacity being developed should increase electricity transmission and tax revenue.

Forecast Methodology

The WET tax revenue is forecast in two major steps:

Step 1: Total taxable electricity production base is estimated from Department of Revenue tax records and projected based on the change in the Global Insight estimate of the industrial production sub-index for utilities in Montana.

Step 2: The tax rate of \$0.00015 per KWH is multiplied by the estimated amount of taxable electricity transmitted in the state to yield total tax revenue.

Table 2 shows actual taxable electricity produced and the tax revenue generated for FY 2001 through FY 2010 and forecast for FY 2011, FY 2012, and FY 2013.

Table 2 Taxable kWh for Wholesale Energy Tax (\$ millions)			
Fiscal Year	Taxable KWH (million)	Tax Rate	Tax Revenue ¹
A 2001	21,930.454 x	0.00015 =	\$3.290
A 2002	22,077.361 x	0.00015 =	\$3.312
A 2003	22,474.593 x	0.00015 =	\$3.371
A 2004	23,235.939 x	0.00015 =	\$3.485
A 2005	23,576.673 x	0.00015 =	\$3.537
A 2006	24,112.351 x	0.00015 =	\$3.617
A 2007	24,609.110 x	0.00015 =	\$3.691
A 2008	25,396.158 x	0.00015 =	\$3.809
A 2009	25,221.633 x	0.00015 =	\$3.783
A 2010	24,772.237 x	0.00015 =	\$3.716
F 2011	25,644.742 x	0.00015 =	\$3.847
F 2012	25,693.898 x	0.00015 =	\$3.854
F 2013	25,869.533 x	0.00015 =	\$3.880

¹ Historical revenues do not match Table 1 due to accrual adjustments and amended returns.

Distribution

The general fund receives 100% of the WET tax.

Data Sources

Historical electricity data was provided by the Department of Revenue. Global Insight's October 2010 Montana forecast of the industrial production (sub) index for utilities is used to project electricity transmission in the state.



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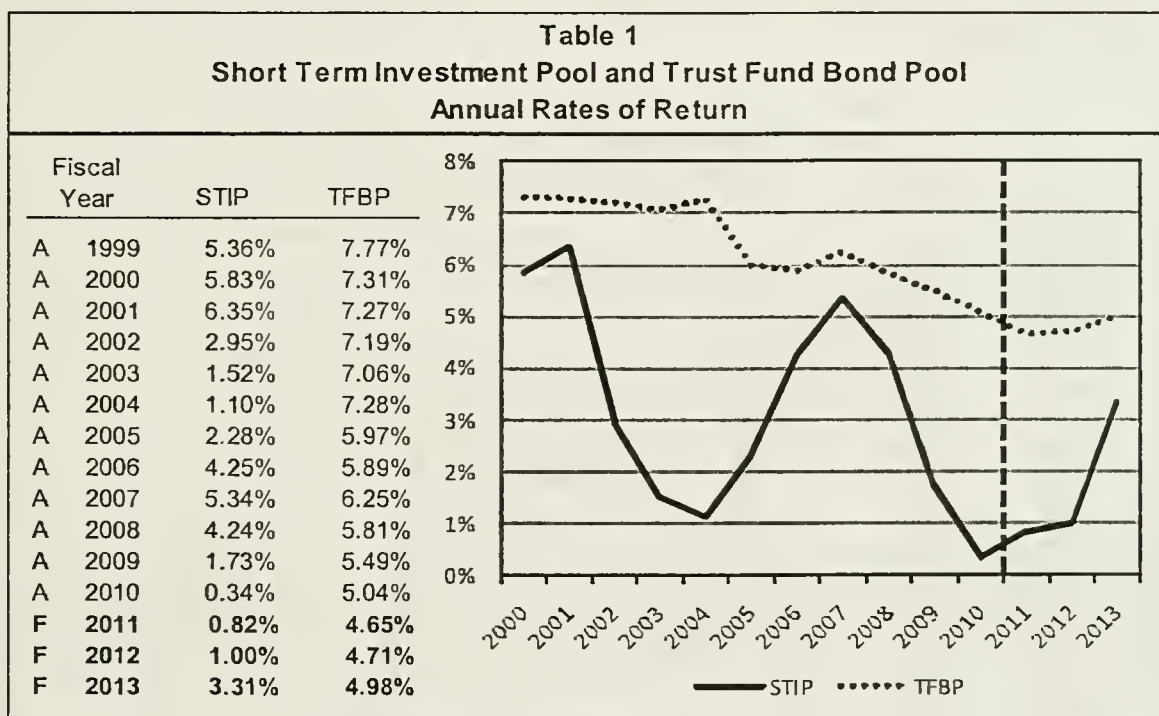


GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Revenue Description

The Board of Investments (BOI) manages trust fund balances and invests agency cash balances for the state. The board invests most of the agency cash and a small portion of fund balances in the short-term investment pool (STIP). The STIP is managed like a money market account so that daily withdrawals and deposits are allowed and the pool continues to earn interest. The board also manages trust fund balances in the Trust Fund Bond Pool (TFBP). The TFBP's portfolio is mainly comprised of long-term bonds and is managed in a way to try and provide consistent interest earnings. The estimates for the rates of return are used to forecast revenue earnings for the treasury cash account, the common school trust, the various coal trusts, and several other funds.

Table 1 shows actual annual percentage interest rates of both STIP and TFBP in FY 2000 through FY 2010 and projections for FY 2011 through FY 2013.



The STIP rate decreased substantially from FY 2001 to FY 2004 due to a collapse in short-term interest rates. Short-term interest rates rose through FY 2007. Turmoil in the national economy, beginning in FY 2008, caused the Federal Open Market Committee (FOMC) to cut their target federal funds rate in order to help stimulate the economy. The federal funds rate is the rate at which banks lend to each other overnight to meet daily reserve requirements, and this rate is a benchmark for many other types of short-term interest rates. The FOMC is expected to keep their target rate between 0.00% and 0.25% until the end of FY 2012. As the economy stabilizes, the FOMC is then expected to raise interest rates to prevent excessive inflation and allow for more traditional monetary policy tools to be used.

The TFBP yield has been slowly decreasing since FY 1998. The reason for the decrease is primarily due to older bonds, with relatively high rates of return, slowly being replaced with new bonds that had relatively lower rates of return. The TFBP rate increase in FY 2004 was caused, in large part, because of the sale of older bonds with higher interest rates. The unusually large decrease in TFBP yield in FY 2005 was caused primarily by unusually large capital loss. TFBP yields are anticipated to continue declining in FY 2011 before increasing in FY 2012 and FY 2013.

Risks and Significant Factors

- The FOMC may raise or lower interest rates faster or slower than anticipated based on volatile financial market predictions.
- If the national economy were to enter another deep recession, there will be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.

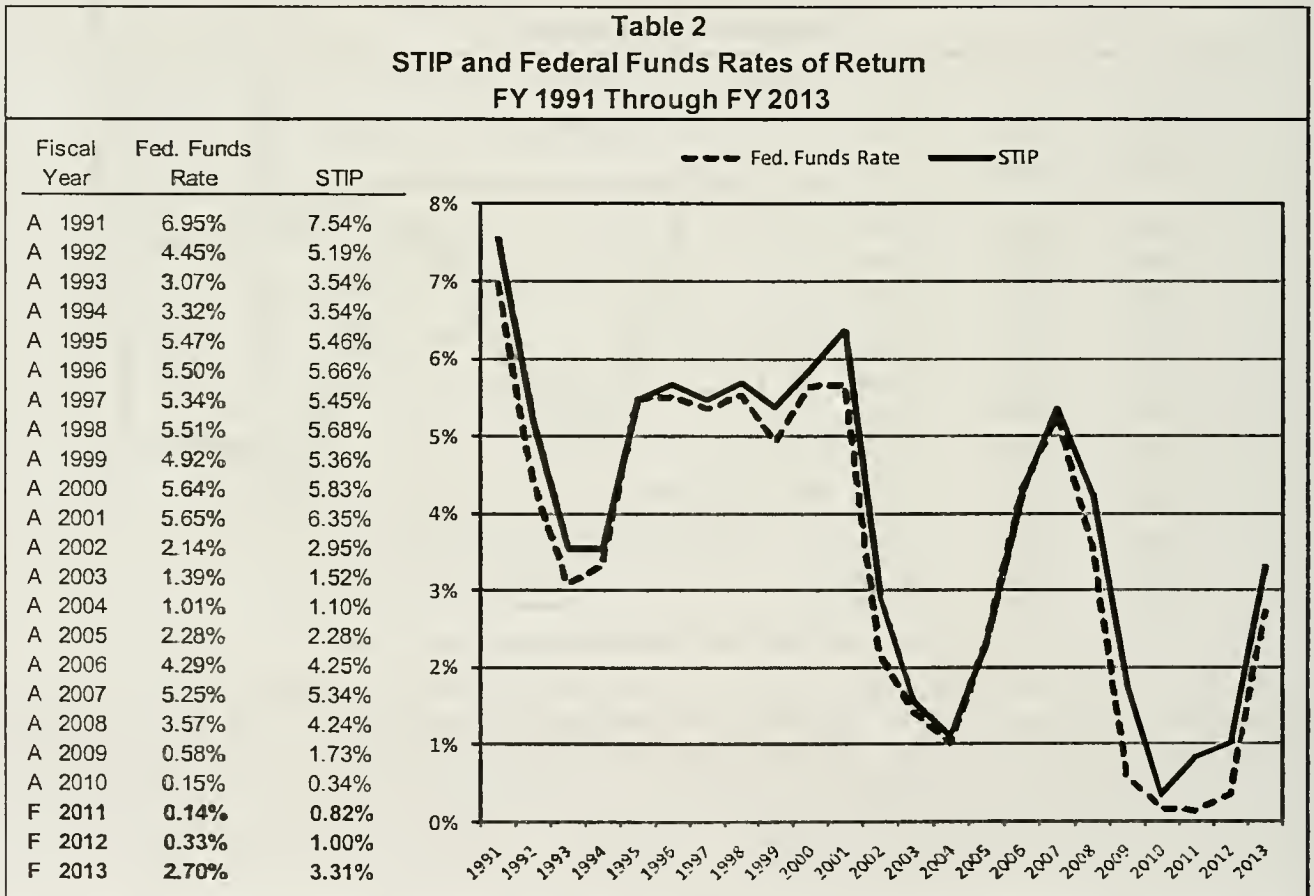
Forecast Methodology

There are two steps in calculating the STIP rate of return:

Step 1. Examine the relationship between the federal fund rate and the STIP rate of return using a statistical regression.

Step 2. Apply this relationship to the Global Insight forecast for the federal fund rate.

Table 2 shows the actual annual average STIP and federal funds rate for FY 1991 through FY 2010 and forecast values for FY 2011 through FY 2013.



There are four steps in calculating the TFBP rate of return:

Step 1. Determine which bonds will mature.

Step 2. Assume that the new bonds will be reinvested in similar bonds, and these bonds will receive a return equal to the Global Insight forecast.

Step 3. Bonds that have not yet matured will continue to receive their current returns.

Step 4. Calculate the total rate of return for the TFBP.

Table 3 shows the estimated book value, income, and rate of return for both the non-maturing bonds and the new bonds being purchased.

Table 3			
Trust Fund Bond Pool Forecast			
(\$ millions)			
TFBP Components	FY 2011	FY 2012	FY 2013
Non Maturing Bonds			
Book Value ¹	\$1,525.0	\$1,532.1	\$1,493.6
Income	\$70.8	\$72.1	\$73.7
Rate of Return	4.64%	4.71%	4.94%
New Bonds			
Book Value	\$14.6	\$7.5	\$46.0
Income	\$0.8	\$0.4	\$3.0
Rate of Return	5.40%	5.70%	6.47%
Total			
Book Value	\$1,539.6	\$1,539.6	\$1,539.6
Income	\$71.6	\$72.6	\$76.7
Rate of Return	4.65%	4.71%	4.98%
¹ This amount does not include CRP, a small amount of STIP, and six investments that have a different structure, but are assumed to have comparable yields.			

Data Sources

The State Street Bank and BOI provide monthly reports on STIP and TFBP investment earnings and balances. TFBP specific data was obtained from the Board of Investment's website at <http://www.investmentmt.com>. Historic Federal Funds Rate can be found at <http://www.federalreserve.gov/releases/h15/data.htm>. Forecasted Baa corporate bond and federal funds rates of return are from Global Insight's November U.S. Economic Outlook.

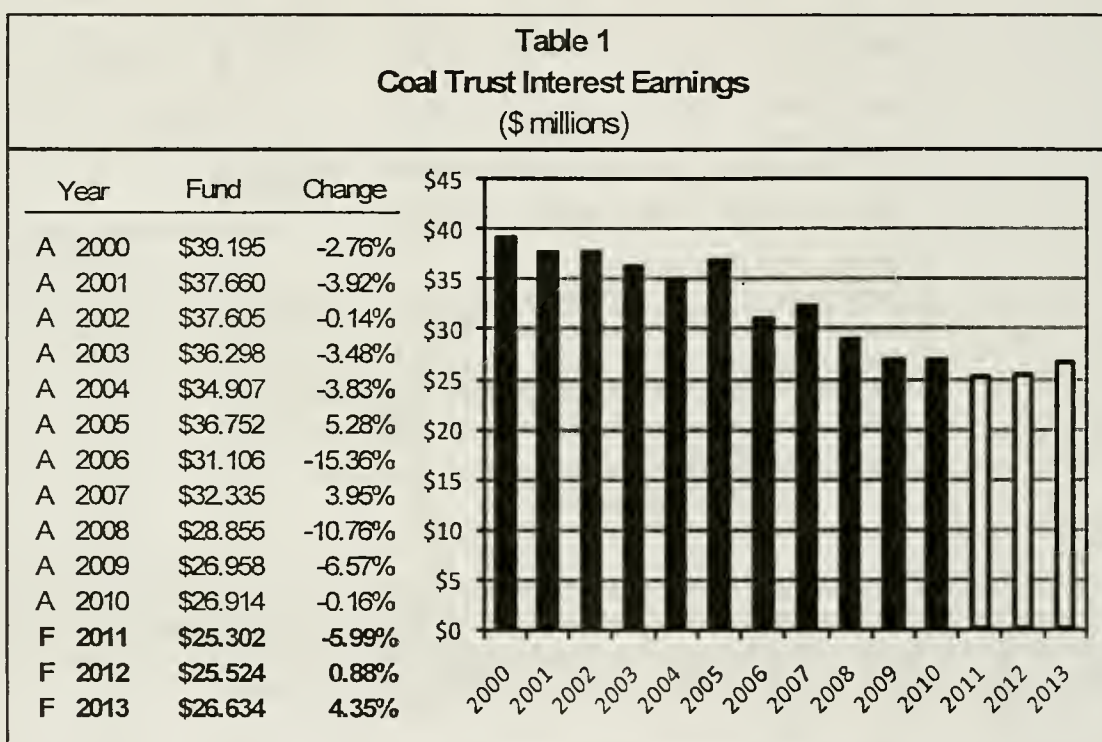
Coal Trust Interest Earnings

2013 Biennium

Revenue Description

Article IX, Section 5 of the Montana Constitution established the coal severance tax permanent trust fund into which at least half of coal severance tax revenue must be deposited. Under current law, half of the severance tax revenue is deposited in the trust fund, which is divided into several funds with different purposes. The trust funds are described in more detail in the *Introduction to the Coal Trusts*. Interest earnings from the coal severance tax permanent fund and the coal severance tax bond fund are allocated to the general fund.

Table 1 shows actual interest earnings allocated from the coal severance tax permanent fund and the coal severance tax bond fund to the general fund from FY 2000 through FY 2010 and the revenue forecast for FY 2011 through FY 2013.



General fund revenue from the coal severance tax permanent fund fell every year from FY 1998 through FY 2004. This was primarily caused by declining long-term interest rates. In FY 2005, revenue from the coal trust increased because there were capital gains of \$0.9 million and a \$1.5 million increase in loan interest income, which offset declines in bond interest income. A \$20 million in-fund balance transfer to the big sky economic development fund decreased income in FY 2006. In FY 2011, coal trust interest revenue is projected to fall due to low interest rates, and then increase beginning in FY 2012 and FY 2013 as interest rates increase.

Risks and Significant Factors

- The Federal Open Market Committee (FOMC) may raise or lower interest rates faster or slower than anticipated based on volatile financial market predictions and the overall health of the economy.
- If the national economy were to enter another deep recession, there would be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.

Forecast Methodology

The interest earnings are forecast in three main steps:

Step 1. The composition of the assets in the fund is first estimated. The fund is invested primarily in the Trust Fund Bond Pool (TFBP), but it is also partially invested in Short-Term Investment Pool (STIP) and commercial loans.

Step 2. Apply the forecast rates of return for each type of investment.

Step 3. Estimate other income and administrative costs and add all the pieces together.

The Permanent Fund is invested in commercial loans, the TFBP, and STIP. Table 2 shows the actual average balance, income, and rate of return for each type of investment as well as the fund totals for FY 2008 through FY 2010 and forecast values for FY 2011 through FY 2013.

Table 2 Coal Trust Interest Income (\$ millions)							
<u>Loan Income</u>				<u>TFBP Income</u>			
Fiscal Year	Balance ¹	Interest Rate	Income ²	Fiscal Year	Balance ¹	Interest Rate	Income ²
A 2008	\$191.089	5.06%	\$9.670	A 2008	\$311.145	5.77%	\$17.948
A 2009	\$210.315	5.11%	\$10.752	A 2009	\$313.161	5.13%	\$16.071
A 2010	\$206.201	5.23%	\$10.791	A 2010	\$312.515	5.15%	\$16.102
F 2011	\$203.981	5.17%	\$10.545	F 2011	\$315.515	4.66%	\$14.688
F 2012	\$203.981	5.17%	\$10.545	F 2012	\$315.515	4.72%	\$14.889
F 2013	\$203.981	5.17%	\$10.545	F 2013	\$315.515	4.99%	\$15.732
<u>Stip Income</u>				<u>Trust Fund Total</u>			
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 2008	\$28.915	4.33%	\$1.253	A 2008	\$531.150	5.44%	\$28.871
A 2009	\$7.741	1.73%	\$0.134	A 2009	\$531.216	5.07%	\$26.957
A 2010	\$12.482	0.33%	\$0.042	A 2010	\$531.198	5.07%	\$26.934
F 2011	\$11.821	0.82%	\$0.097	F 2011	\$531.316	4.77%	\$25.330
F 2012	\$11.821	1.00%	\$0.118	F 2012	\$531.316	4.81%	\$25.552
F 2013	\$11.821	3.26%	\$0.386	F 2013	\$531.316	5.02%	\$26.662

¹Balances are adjusted for SB495 loan to common schools.

²Income amount are adjusted for SB495 loan payments from the common schools.

Although the Montana Constitution says one half of revenue from the coal severance tax is to be deposited in a trust fund, there are four coal trust sub-funds that receive revenue from the coal severance tax. Besides the Coal Severance Tax Permanent Fund that benefits the state general fund, there is also the Treasure State Endowment Fund, the Treasure State Endowment Regional Water Systems Fund, and the Big Sky Economic Development Fund. Currently, the three sub-funds receive the 50% of the coal severance tax revenue as established in Article 1X, Section 5 of the Montana Constitution. Since no new money is deposited in the Coal Severance Tax Permanent Fund from the coal severance tax until FY 2016, the balance is projected to remain at FY 2010 levels for FY 2011 through FY 2013.

Loan rates have remained relatively stable as interest rates have fluctuated and are projected to continue to remain relatively stable in FY 2011 through FY 2013. The primary reason these interest rates have not fluctuated much is due to the fact that many of these loans are economic development loans that include rate reductions. The TFBP and STIP rates are forecast in the *Interest Rate Introduction* section.

Table 3 shows actual administrative expenses, capital gains income, other income, and interest income for FY 2008 through FY 2010 and forecast income for FY 2011 through FY 2013. The last column also shows the total revenue for the Coal Severance Tax Permanent Trust Fund.

Table 3 Coal Trust Total General Fund Revenue (\$ millions)				
Fiscal Year	Interest Income	Other Income	Admin. Expense	Total Revenue
A 2008	\$28.871	+ \$0.371	+ (\$0.387)	= \$28.855
A 2009	\$26.957	+ \$0.403	+ (\$0.402)	= \$26.958
A 2010	\$26.934	+ \$0.399	+ (\$0.419)	= \$26.914
F 2011	\$25.330	+ \$0.391	+ (\$0.419)	= \$25.302
F 2012	\$25.552	+ \$0.391	+ (\$0.419)	= \$25.524
F 2013	\$26.662	+ \$0.391	+ (\$0.419)	= \$26.634

Occasionally, Permanent Fund TFBP shares are sold. An example of this is the shares sold to finance the Big Sky Economic Development fund transfer in FY 2005. About 186,000 shares were sold for a capital gain of \$0.86 million. The capital gain occurred because the TFBP share price at the time of sale was more than the average price paid for TFBP shares in the permanent fund. No capital gains are forecast for FY 2011 through FY 2013.

The other income category consists mainly of two sources. 1) The Permanent Fund also receives income from a bond fund that is set up to provide debt security for bonds called coal severance tax bonds. This balance earns a small amount of interest. 2) The interest earnings from the permanent fund and the bond fund are deposited into the coal tax income fund. Although the income fund balance is swept monthly into the general fund, it is invested in STIP during the interim. The income from this investment is returned to the income fund before being deposited into the general fund. These two combined sources of revenue are forecast using the average for FY 2008 through FY 2010.

The administrative expenses are forecast to remain at their FY 2010 levels for FY 2011 through FY 2013.

Data Sources

The State Street Bank and BOI provide monthly reports on the trust fund balances and income. Fiscal year end revenues and administrative expenses were obtained from SABHRS.

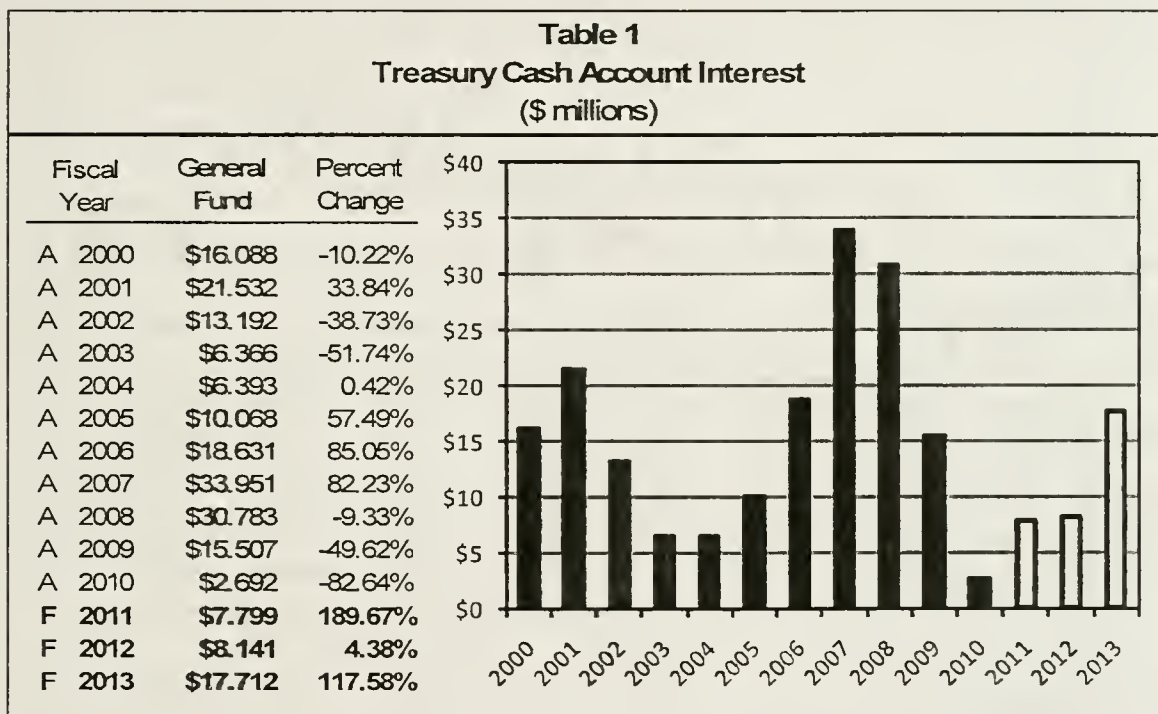
Treasury Cash Account (TCA) Interest

2013 Biennium

Revenue Description

The treasury cash account (TCA) contains general fund cash balances and cash balances from several other funds invested by the Board of Investments (BOI), whose interest earnings are deposited into the general fund. In some years, the state borrows money to maintain a positive balance in the general fund by issuing tax or revenue anticipation notes (TRANS). TRANS are short-term bonds that are repaid in the same fiscal year that they are issued. Issuing TRANS increases the average balance in the TCA and, therefore, increases the interest earned on the account. However, the state pays interest on the TRANS. TRANS have not been issued since FY 2004 and are not anticipated for the forecast period.

Table 1 shows actual revenue generated from TCA interest for FY 2000 through FY 2010, and projected revenues for FY 2011 through FY 2013.



In FY 2003 and FY 2004, short-term interest rates were very low and TCA interest earnings decreased to less than \$6.4 million per year. Interest earnings increased in FY 2005 through FY 2007 due to increased balances and higher short-term interest rates. Both the average balance and short-term interest rates declined starting in FY 2008 through FY 2010, causing interest earnings to decline during this period. Short-term interest rates are expected to begin increasing toward the end of FY 2011 and continue through FY 2013.

Risks and Significant Factors

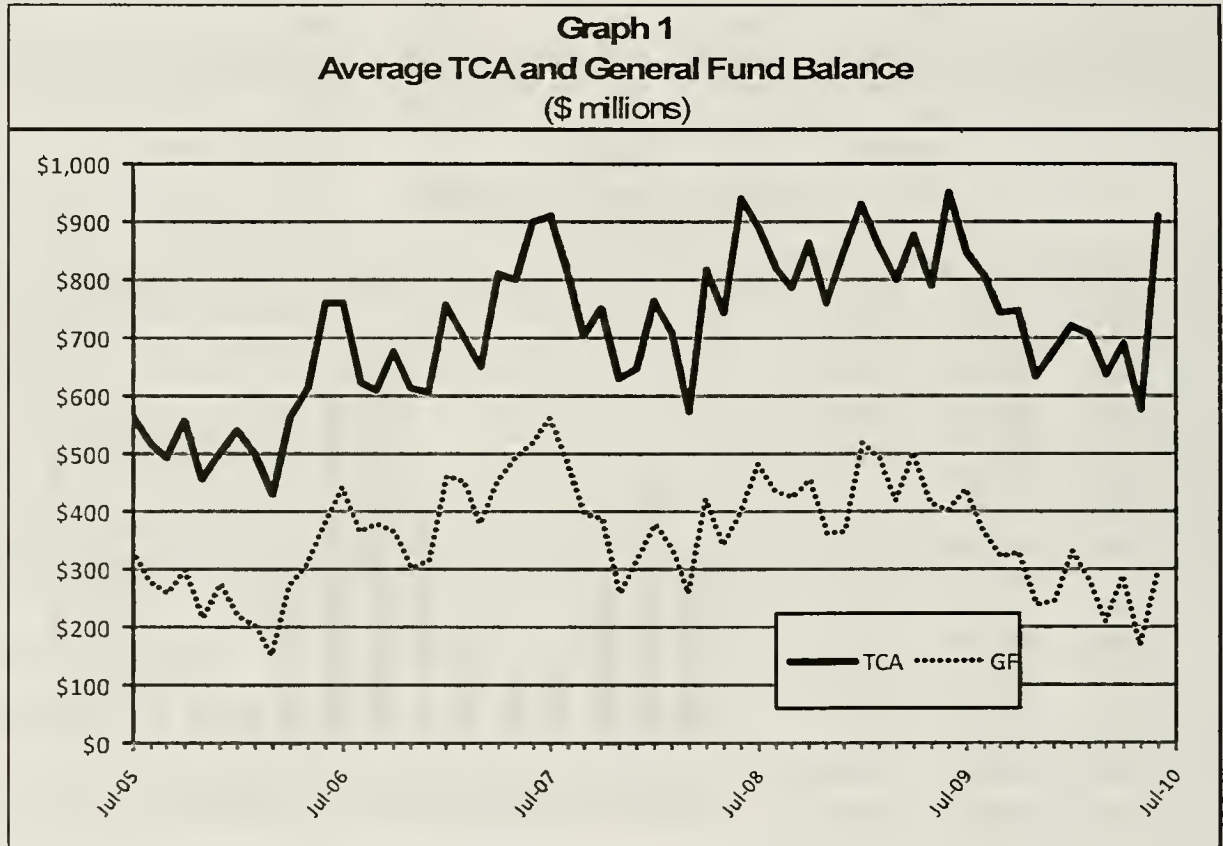
- Short-term and medium-term interest rates can be very volatile, and continued volatility could affect TCA revenues.
- The average fund balance in FY 2007 and FY 2008 was much higher than anticipated, and much lower in FY 2009 and FY 2010. If the average balance differs significantly, then the actual revenue may also differ from the estimate. If total state revenue is lower than expected, or if expenditures are greater than anticipated, then the TCA balance will likely be lower than anticipated in this estimate.

Forecast Methodology

There are two main steps in calculating TCA earnings:

Step 1. Determine the average balance. The average general fund balance is projected to slowly decrease in FY 2011 and FY 2012 using executive budget recommendations of ending fund balance. The portion of the total that is attributable to the general fund has remained relatively stable with a large spike in FY 2007 due to larger than expected revenues.

Graph 1 shows the monthly balance for TCA and the average general fund balance from the beginning of FY 2006 to the end of FY 2010.



Although there are many funds contributing to the TCA balance, the general fund is the largest source of the account.

Table 2 shows the annual average balance of the general fund, the average TCA balance, and the general fund percentage of the total.

Table 2 General Fund and TCA Balances (\$ millions)			
Fiscal Year	General Fund	TCA	GF Percent
F 2011	\$236.481	\$580.112	40.76%
F 2012	\$188.178	\$526.409	35.75%
F 2013	\$150.945	\$485.013	31.12%

Step 2. Determine the appropriate rate of return and calculate the income. TCA balances are invested in overnight repurchase agreements, the short-term investment pool (STIP), and medium-term bonds. Table 3 shows the average balance, rate of return, and income for these investments from FY 2008 to FY 2010, and forecast values for FY 2011 through FY 2013.

Table 3 TCA Rates of Return by Investment Type (\$ millions)							
Fiscal Year	<u>Cash</u>			Fiscal Year	<u>STIP</u>		
	Balance	Interest Rate	Income		Balance	Interest Rate	Income
A 2008	\$23.66	3.97%	\$0.94	A 2008	\$591.84	3.88%	\$22.98
A 2009	\$25.39	0.65%	\$0.17	A 2009	\$782.22	1.54%	\$12.08
A 2010	\$52.50	0.24%	\$0.13	A 2010	\$610.15	0.34%	\$2.10
F 2011	\$38.95	0.14%	\$0.05	F 2011	\$470.05	0.82%	\$3.87
F 2012	\$38.95	0.33%	\$0.13	F 2012	\$416.35	0.99%	\$4.11
F 2013	\$38.95	2.67%	\$1.04	F 2013	\$374.95	3.22%	\$12.06

Fiscal Year	<u>Medium Term Bonds</u>			Fiscal Year	<u>Total</u>		
	Balance	Interest Rate	Income		Balance	Interest Rate	Income
A 2008	\$135.32	5.03%	\$6.80	A 2008	\$750.83	4.09%	\$30.72
A 2009	\$41.66	7.76%	\$3.23	A 2009	\$849.27	1.82%	\$15.48
A 2010	\$62.69	2.62%	\$1.64	A 2010	\$725.34	0.53%	\$3.87
F 2011	\$71.12	5.51%	\$3.92	F 2011	\$580.11	1.35%	\$7.84
F 2012	\$71.12	5.54%	\$3.94	F 2012	\$526.41	1.55%	\$8.18
F 2013	\$71.12	6.55%	\$4.66	F 2013	\$485.01	3.66%	\$17.76

The majority of the overall TCA fund balance has been invested in STIP. As the total fund balance decreases the portion invested in STIP will decline through FY 2012, and the non-STIP portions will remain relatively constant.

The STIP rate of return was calculated in the *Interest Rate Introduction* section. The interest rate on cash invested in overnight repurchase agreements is generally the effective federal funds rate. Global Insight forecasts the federal funds rate which is used as the cash investment interest rate.

The medium-term interest rates are calculated by first determining the maturity dates of the bonds then assuming new

investments will earn a rate of return equal to what Global Insight has forecast for investments of similar risk and maturity and calculate an overall rate of return. In FY 2010, the rate of return was below average; however this trend is not expected to continue.

Step 3. Calculate general fund TCA earnings and deduct administrative expenses. Table 4 shows the administrative expenses from FY 2008 to FY 2010 and estimated values for FY 2011 through FY 2013.

Table 4 Net TCA Income (\$ millions)			
Fiscal Year	Gross Income	Expenses	Net Income
A 2008	\$30.72	+ (\$0.06)	= \$30.78
A 2009	\$15.48	+ (\$0.03)	= \$15.51
A 2010	\$2.65	+ (\$0.04)	= \$2.69
F 2011	\$7.84	+ (\$0.04)	= \$7.80
F 2012	\$8.18	+ (\$0.04)	= \$8.14
F 2013	\$17.76	+ (\$0.04)	= \$17.71

Expenses are projected using the average for FY 2008 through FY 2010.

Data Sources

Fiscal year end revenues are from SABHRS. The State Street Bank and BOI provide monthly reports on TCA investment earnings and balances. Forecast rates of return are from Global Insight's U.S. Economic Outlook. General fund balances were provided by the Department of Administration.



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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Liquor Excise and License Tax

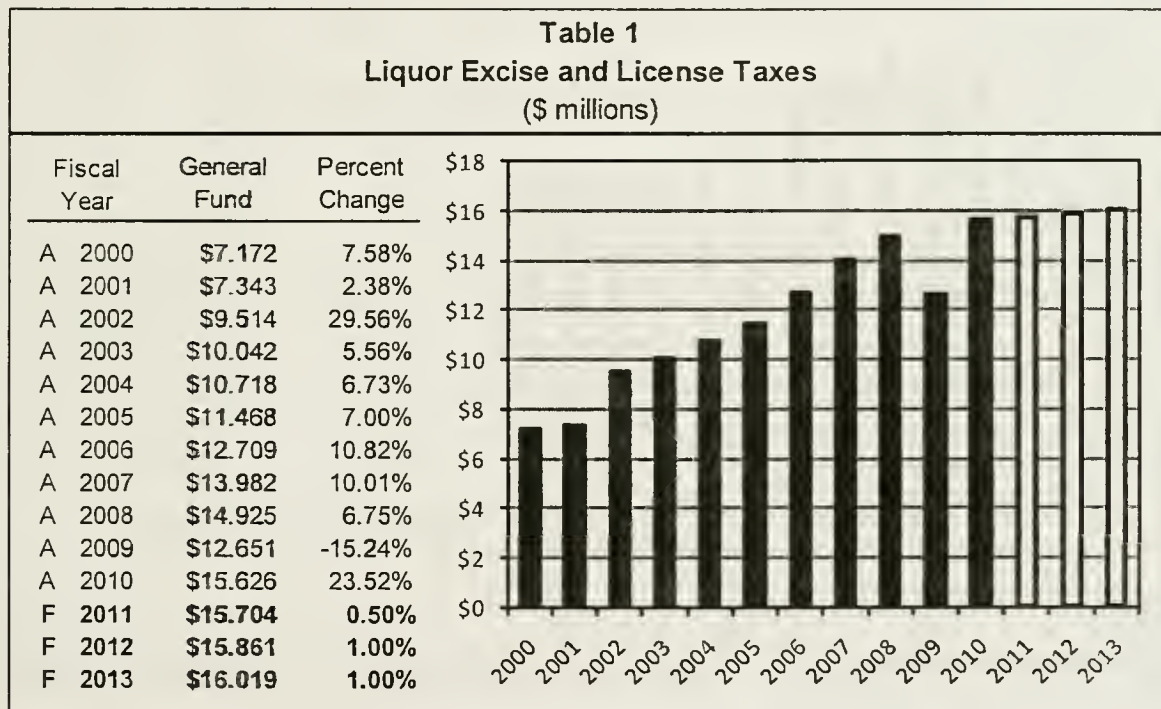
2013 Biennium

Revenue Description

According to 16-1-401 and 16-1-404, MCA, the Department of Revenue is directed to collect an **excise** tax of 16% and a **license** tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. Currently, all Montana liquor is supplied by distillers that produce at least 200,000 proof gallons of alcohol annually.

Section 16-1-404, MCA, states that 65.5% of the liquor **license** tax is deposited to the Department of Public Health and Human Services (DPHHS) to fund treatment, rehabilitation and prevention of alcoholism and chemical dependency. Three Indian tribes have an agreement with the state, and a portion of the remaining revenue from both the excise and license tax is shared with tribes that have a revenue sharing agreement with the state. The remaining revenue is deposited to the general fund.

Table 1
Liquor Excise and License Taxes
(\$ millions)



HB 124 (2001 Session) changed the distribution of the liquor license tax. Prior to FY 2002, 30% of the liquor license tax was distributed to local governments. Beginning in FY 2002, 65.5% of liquor license tax revenue is distributed to DPHHS and 34.5% is distributed to the state general fund. This change explains the 29.6% growth in state general fund revenue in FY 2002 from this source.

Risk and Significant Factors

- Liquor units sold experienced an average annual increase of 3.85% between 2000 and 2010.
- Cost per liquor unit sold experienced an average annual increase of 2.21% between 2000 and 2010.
- The Fort Peck, Fort Belknap, and Blackfeet Indian Reservations have a revenue sharing agreement with the state. The revenue sharing agreement distributes revenues to the tribes based on the per capita general fund revenue multiplied by the number of enrolled tribal members. Tribal revenue is estimated to be 1.96% of the non DPHHS liquor revenue for FY 2011 through FY 2013.

Forecast Methodology

The general fund share of the liquor excise and license tax is prepared in five steps:

Step 1. Calculate gross sales.

Step 2. Calculate retail selling value.

Step 3. Calculate gross liquor excise and license tax collections.

Step 4. Calculate tribal portion of revenue.

Step 5. Calculate liquor excise and license tax general fund revenue.

Distribution

Table 2 shows liquor license tax is first distributed to DPHHS, then revenue from the liquor excise tax is added. Finally, tribal revenues are subtracted to obtain general fund revenue.

Table 2			
Liquor Excise and License Tax Revenue Allocation			
Description	Projected FY 2011	Projected FY 2012	Projected FY 2013
Liquor License Tax	\$8,235,058	\$8,317,409	\$8,400,583
Less DPHHS Share (65.5%)	\$5,393,963	\$5,447,903	\$5,502,382
	\$2,841,095	\$2,869,506	\$2,898,201
Liquor Excise Tax	\$13,176,093	\$13,307,854	\$13,440,932
Non DPHHS Liquor Tax Revenue	\$16,017,188	\$16,177,360	\$16,339,133
Less Tribal Share (1.96%)	\$313,599	\$316,735	\$319,902
General Fund Revenue	\$15,703,589	\$15,860,625	\$16,019,231

Data Sources

Data is from the Department of Revenue monthly cost of sales report, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS.

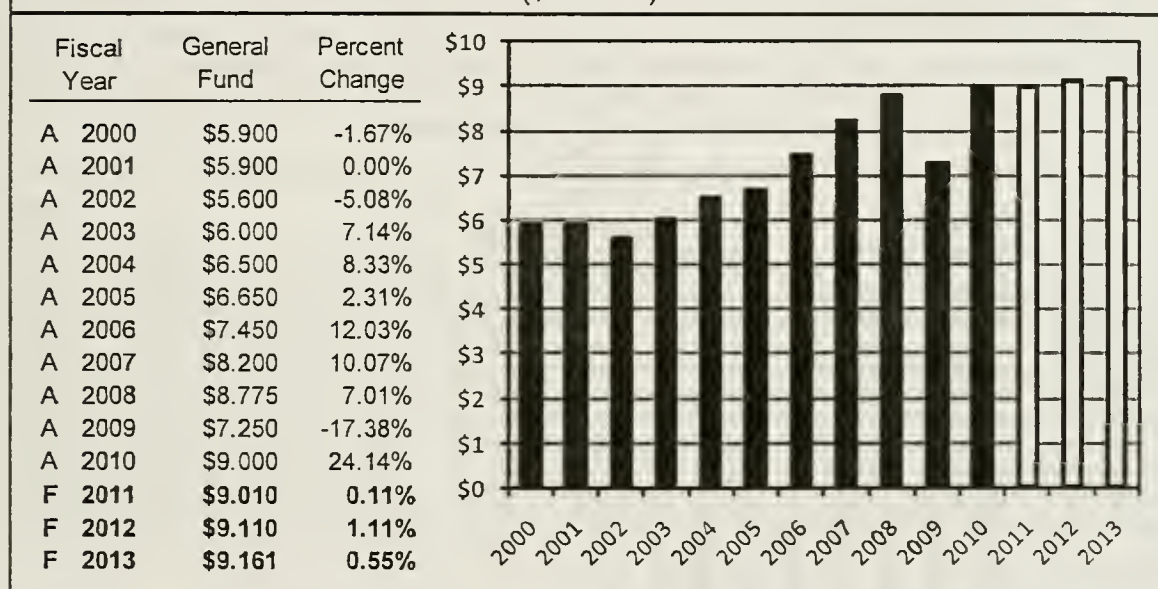
Liquor Profits

2013 Biennium

Revenue Description

Title 16, chapters 1 through 6, MCA, directs the Department of Revenue to administer liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers. Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit net revenue is transferred to the general fund at fiscal year end.

Table 1
Liquor Profits
(\$ millions)



The state privatized liquor retailing operations in FY 1996. Liquor profit transfers to the general fund have gradually increased since that time. The relatively small increase of less than 5% in FY 2008 and FY 2011 is due to the renegotiation of liquor store owner's commission rates in 2008 and FY 2011. Increasing the commission rates will reduce the state liquor profits revenue transferred to the general fund.

Risks and Significant Factors

- Liquor gross sales have experienced an average annual increase of 6.4% between 2002 and 2010.
- Sales commissions are paid to liquor store owners by the State of Montana. The commission rate was negotiated with liquor store owners when privatization occurred in 1996, and varies among store owners. In compliance with the law, the commission rates are negotiated between the Department of Revenue and the store owners every three years. SB 348 (2001 Session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. The SB 348 rates and new negotiated commission rates increase went into effect in FY 2008. In FY 2008, the commission rate increased to 9.40% (from 9.15%) for FY 2008 through FY 2010. Commission rates will be negotiated again in FY 2011.
- Discounts are offered to liquor store owners on purchases of unbroken case lots as provided for in Section 16-2-201, MCA. HB 348 (2001 session) provided for certain additional discounts, mainly related to volume.

Forecast Methodology

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year.

Step 1. Net income from liquor operations is calculated as gross liquor sales less the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), commissions, discounts, and liquor operating expenses.

Step 2. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are ascertained through the process of forecasting *Liquor Excise and License Tax General Fund Revenue*.

Table 2 summarizes the calculations of commissions, discounts, operating expenses, and profits.

Distribution

Table 2 shows liquor profit forecasts for FY 2011 through FY 2013. Gross liquor sales are added to a small amount of other revenue. The profits are then adjusted for the changes to the net assets of the liquor control division, and the remainder is transferred to the general fund.

Table 2 Distribution of Forecast Liquor Profits (\$ millions)											
Fiscal Year	Gross Sales	Other Revenue	Commissions	Discounts	Cost of Goods Sold	Liquor Taxes	Operating Expenses	Profit	Changes in Net Assets	Transfer to General Fund	
A 2005	\$75,687	+ \$0,552	- \$6,913	- \$2,249	- \$42,693	- \$15,616	- \$2,105	▶ \$6,662	- \$0,012	= \$6,650	
A 2006	\$83,916	+ \$0,475	- \$7,683	- \$2,464	- \$47,324	- \$17,310	- \$2,167	▶ \$7,443	- \$0,007	= \$7,450	
A 2007	\$92,301	+ \$0,487	- \$8,450	- \$2,681	- \$52,142	- \$19,039	- \$2,143	▶ \$8,333	- \$0,133	= \$8,200	
A 2008	\$98,595	+ \$0,583	- \$9,266	- \$2,848	- \$55,688	- \$20,333	- \$2,256	▶ \$8,786	- \$0,011	= \$8,775	
A 2009	\$102,342	+ \$0,715	- \$9,615	- \$2,943	- \$57,704	- \$21,107	- \$2,361	▶ \$9,327	- \$2,065	= \$7,262	
A 2010	\$102,734	+ \$0,740	- \$9,667	- \$2,950	- \$57,881	- \$21,159	- \$2,536	▶ \$9,282	- \$0,272	= \$9,010	
F 2011	\$103,762	+ \$0,747	- \$9,854	- \$2,979	- \$58,452	- \$21,371	- \$2,561	▶ \$9,292	- \$0,282	= \$9,010	
F 2012	\$104,799	+ \$0,755	- \$9,953	- \$3,009	- \$59,037	- \$21,584	- \$2,587	▶ \$9,385	- \$0,275	= \$9,110	
F 2013	\$105,847	+ \$0,762	- \$10,052	- \$3,039	- \$59,627	- \$21,800	- \$2,612	▶ \$9,479	- \$0,318	= \$9,161	

Data Sources

Gross liquor sales data and other related data comes from the Department of Revenue Liquor Services Division Annual Financial Report. Other data is from SABHRS and MBARS.

Beer Tax

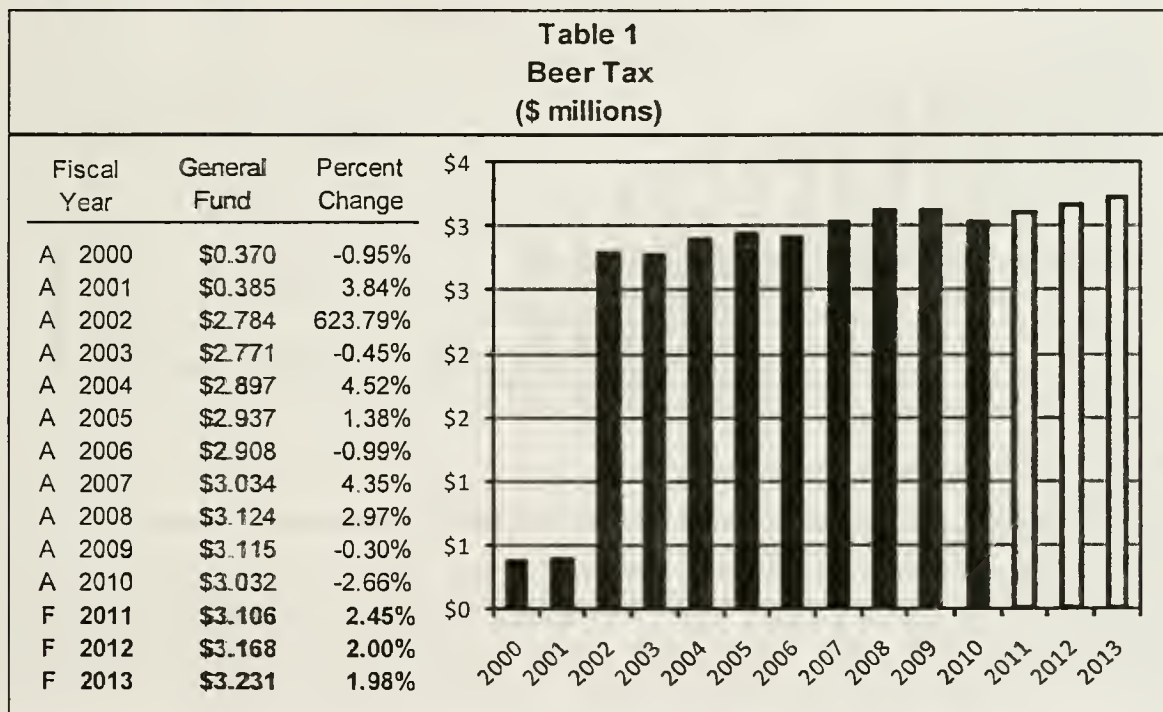
2013 Biennium

Revenue Description

According to 16-1-406, MCA, the Department of Revenue is directed to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rate:

<u>Barrels Produced by a Brewer</u>	<u>Tax Rate Per Barrel</u>
Less than or equal to 5,000	\$1.30
5,001 to 10,000	\$2.30
10,001 to 20,000	\$3.30
Greater than 20,000	\$4.30

From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services (DPHHS) to fund alcohol treatment programs. A small portion of the beer tax revenue allocated to the general fund (approximately 2%) is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.



HB 166 (1997 Special Session) decreased the general fund share of beer tax revenue from 41.86% to 11.63%, which caused a large drop in general fund revenue for FY 1998 through FY 2001. The significant increase in general fund beer tax revenue since FY 2002 is due to HB 124 (2001 Session), which raised the general fund share of beer tax revenue from 11.63% to 76.74%.

Risks and Significant Factors

- Per capita beer consumption is virtually flat, increasing an average of only 0.01% between 2002 and 2010.
- Montana population over age 20 experience an average annual increase of 1.33% between 2002 and 2010.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total beer consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.

- Tribal payments averaged 1.95% of the non-DPHHS tax allocation from FY 2006 through FY 2010 and are estimated to remain constant at 1.95% of the non-DPHHS allocation for FY 2011 through FY 2013.

Forecast Methodology

The general fund share of the beer tax is prepared in three steps:

Step 1. Calculate per capita consumption of beer.

Step 2. Total revenue is projected by multiplying per capita consumption by total Montana population.

Step 3. Total revenue is allocated to the general fund, DPHHS, and the tribes, per the revenue sharing agreements.

Distribution

Table 2 shows the projected allocation of beer tax revenue to the general fund, DPHHS, and the tribes. DPHHS revenue allocation is subtracted from total beer tax revenue to obtain total general fund and tribe share. Tribe share is then calculated and subtracted to obtain estimated beer tax revenue for the general fund.

Table 2 Beer Tax Revenue Allocation (\$ Millions)				
Description	FY 2010	FY 2011	FY 2012	FY 2013
Total Revenue	\$ 4.046	\$ 4.128	\$ 4.211	\$ 4.294
Less DPHHS Share (23.26%)	\$ (0.941)	\$ (0.960)	\$ (0.979)	\$ (0.999)
General Fund and Tribes' Share	\$ 3.105	\$ 3.168	\$ 3.232	\$ 3.295
Less Tribes' Share (1.95%)	\$ (0.061)	\$ (0.062)	\$ (0.063)	\$ (0.064)
General Fund	\$ 3.044	\$ 3.106	\$ 3.168	\$ 3.231

Data Sources

SABHRS provided historical beer tax revenue and allocation information. Global Insight Research Service provided historical and projected Montana population data.

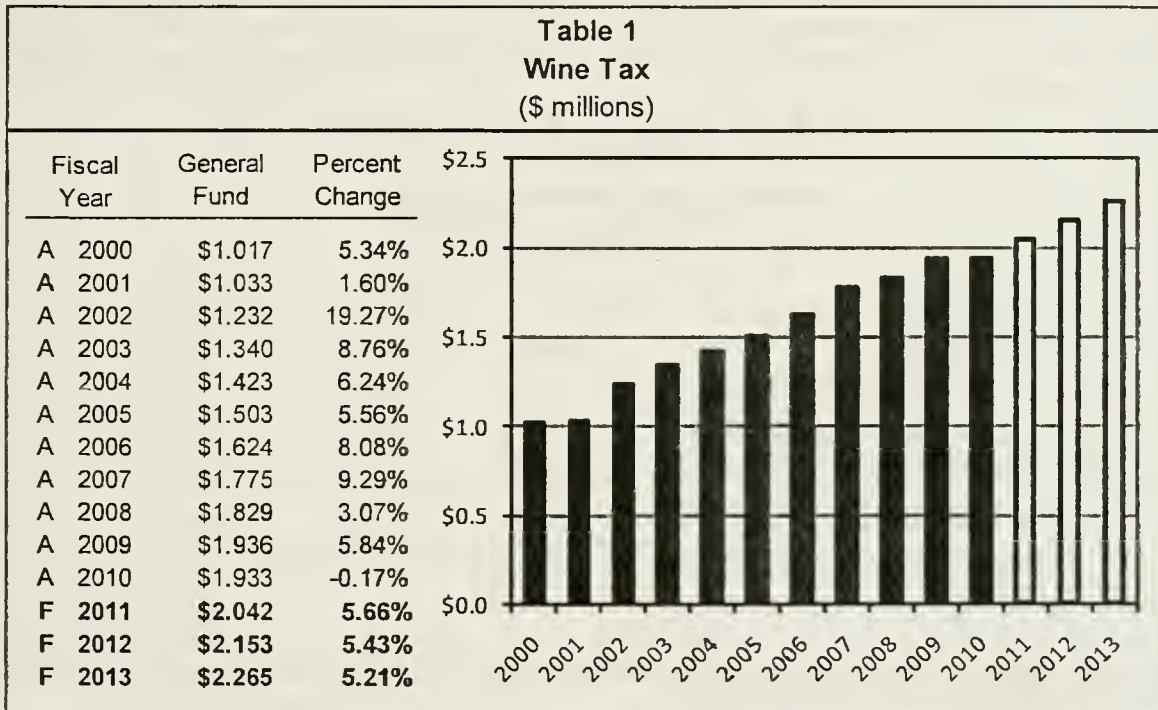
Wine Tax

2013 Biennium

Revenue Description

According to 16-1-411, MCA, the Department of Revenue is directed to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent, pursuant to 16-2-301, MCA.

Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services (DPHHS) for the treatment, rehabilitation, and prevention of alcoholism and chemical dependency. Approximately 2% of the wine tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.



FY 2002 wine tax revenue increased 19.27% due to HB 124 (2001 Session), which increased the general fund share of wine tax revenue from 59% to 69%. This forecast projects the per capita consumption of wine in Montana will grow at a rate of 0.562 liters per person between FY 2011 and FY 2013. This growth is the result of a statistical regression analyzing the growth in per capita wine consumption from FY 2002 through FY 2010. Table 1 shows actual wine tax revenue transferred to the general fund for FY 2000 to FY 2010 and forecasted revenues for FY 2011 through FY 2013.

Risks and Significant Factors

- Per capita consumption experienced an average annual increase of 3.77% between 2002 and 2010, although consumption decreased 1% in 2010.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total wine consumption over time better than changes in other age demographics such as total population or the population between 30 and 60 years old.
- Montana population age 20 and over has experienced an average annual increase of 1.33% between 2002 and 2010.

Forecast Methodology

The general fund share of the wine tax is prepared in three steps:

Step 1. Estimate liters of per capita wine consumption for FY 2011 through FY 2013 using per capita consumption from FY 2002 through FY 2010.

Step 2. Multiply the estimates of per capita consumption by population and the tax rate (\$0.27/liter) to obtain estimates of total tax revenue through FY 2013.

Step 3. Determine the wine tax allocation to the general fund.

Distribution

Table 2 shows the estimated revenue distribution for FY 2011 through FY 2013. Of the total revenue, 31% is first distributed to the DPHHS. The tribe revenue allocation payment (1.87%) is then extracted from the remaining revenue for FY 2011 through FY 2013. All revenue which remains after DPHHS and tribe payments have been subtracted is deposited to the general fund.

Table 2			
Wine Tax Revenue Allocation			
(\$ millions)			
Description	FY 2011	FY 2012	FY 2013
Total Revenue	\$3.018	\$3.182	\$3.348
Less DPHHS Share (31%)	-\$0.936	-\$0.986	-\$1.038
General Fund and Tribes' Share	\$2.082	\$2.195	\$2.310
Less Tribes' Share (1.87%)	-\$0.040	-\$0.043	-\$0.045
General Fund	\$2.042	\$2.153	\$2.265

Data Sources

SABHRS provided historical wine tax revenue and allocation information. Global Insight Research Service provided historical and projected Montana population data.



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STATE OF MONTANA

TOBACCO REVENUE SECTION 7

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Cigarette Tax

2013 Biennium

Revenue Description

According to 16-11-111, MCA, a specific tax of \$1.70 is imposed on each pack of 20 cigarettes. If a pack contains more than 20 cigarettes, the tax is pro-rated by 1/20th of the \$1.70 tax for each cigarette exceeding 20 cigarettes. Currently, revenue generated from the cigarette tax is distributed as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiatives account; 2.6% to the long-range building account; and the greater of 8.3% or \$2 million for operation of state veterans' nursing homes.

Table 1
Cigarette Tax
(\$ millions)

Fiscal Year	General Fund	Percent Change	
A 2000	\$8.418	-4.59%	\$40
A 2001	\$8.285	-1.58%	\$35
A 2002	\$7.887	-4.80%	\$30
A 2003	\$12.576	59.46%	\$25
A 2004	\$36.002	186.26%	\$20
A 2005	\$35.117	-2.46%	\$15
A 2006	\$34.573	-1.55%	\$10
A 2007	\$35.830	3.64%	\$5
A 2008	\$36.004	0.49%	\$0
A 2009	\$34.320	-4.68%	
A 2010	\$32.218	-6.13%	
F 2011	\$32.141	-0.24%	
F 2012	\$32.939	2.48%	
F 2013	\$32.855	-0.26%	

HB 166, (1997 Session) distributed cigarette tax revenue 73.04% to the general fund; 15.85% to the long-range building account; and 11.11% to the Department of Public Health and Human Services (DPHHS), as provided for in section 16-11-119, MCA. Beginning May 1, 2003, SB 407 (2003 Session) increased the tax on cigarettes from \$0.18 to \$0.70 per pack. SB 407 also changed the distribution of cigarette taxes, increasing the general fund portion to 87.40%, the long-range building account to 4.3%, and the DPHHS portion to the greater of 8.3% or \$2.0 million. The tax increase under SB 407 explains the FY 2003 and FY 2004 increase in cigarette tax revenue shown in Table 1.

Initiative 149 (I-149) further increased the tax on each pack of cigarettes to \$1.70 as of January 1, 2005. I-149 also changed the allocation of total collections as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiatives account; 2.6% to the long-range building account; and the greater of 8.3% or \$2 million for operation of state veterans' nursing homes.

For FY 2010 and FY 2011 only, 1.2% of the state portion is designated for the Southwest Montana Veterans' Home, reducing the general fund portion to 43.9%. In FY 2012, the general fund distribution returns to 45.1%.

Risks and Significant Factors

- Per capita consumption has experienced an average annual decrease of 2.01% between 2006 and 2010.
- Montana population age 15 and over, which experienced an average annual increase of 1.17% between 2006 and 2010, was used for this forecast because, according to statistical analysis, this demographic tracked total

cigarette consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.

- Although national trends indicate an overall downward trend for cigarette consumption, the rate at which consumption declines is also declining. According to the Center for Disease Control, the national prevalence of cigarette smoking has not declined significantly since 2004, which would imply a break in the previous seven year decline in cigarette smoking in the United States. This model assumes a 1% annual decrease in per capita consumption in future years.
- There are three types of arrangements for cigarette taxes with the seven Indian reservations in Montana:
 1. The Northern Cheyenne has a tax-free quota agreement with the state.
 2. The Flathead Reservation abides by the tax-free quota law with no specific agreement with the state.
 3. The Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, and Crow Reservations have a revenue sharing agreement with the state.
- Tribes in categories 1 and 2 receive cigarettes tax free for the enrolled tribal members residing on the reservation. Under the revenue sharing agreements, the tribe and state cigarette tax rates are the same. The tribe's share of the tax revenue is 150% of the per capita cigarette tax collected for each of the tribes' enrolled members residing on the reservation.

Forecast Methodology

The general fund share of the cigarette tax is prepared in four steps:

- Step 1. Estimate taxable per capita cigarette consumption.
- Step 2. Estimate cigarette tax revenue.
- Step 3. Calculate tribal revenue sharing agreement payments.
- Step 4. Calculate state cigarette tax revenue and allocation.

Distribution

Table 2 shows the calculation and allocation of state cigarette tax revenue for FY 2011 through FY 2013. The tribes' revenue allocations are subtracted from the gross cigarette tax revenue to yield total state cigarette tax revenue. Revenue is allocated to each fund by multiplying state cigarette tax revenue by the fund's share.

Table 2 Calculation and Distribution of Cigarette Tax Revenue			
<u>Calculation</u>	FY 2011	FY 2012	FY 2013
Gross Cigarette Tax Revenue	\$76,897,387	\$76,710,286	\$76,514,064
Subtract Tribe Payments	\$3,683,767	\$3,674,804	\$3,665,404
Total State Cigarette Tax Revenue	\$73,213,619	\$73,035,482	\$72,848,660
<u>Allocation</u>			
General Fund (45.1%)	\$32,140,779	\$32,939,002	\$32,854,746
SW Veteran's Home (1.2%)	\$878,563		
Long Range Building Fund (2.6%)	\$1,903,554	\$1,898,923	\$1,894,065
State Veterans' Nursing Homes (8.3%)	\$6,076,730	\$6,061,945	\$6,046,439
Health and Medicaid (44.0%)	\$32,213,992	\$32,135,612	\$32,053,410
Total State Cigarette Tax Revenue	\$73,213,619	\$73,035,482	\$72,848,660

Data Sources

The general fund revenue data was obtained from SABHRS. Current tribal payments are provided by DOR Revenue Sharing Agreement Quarterly Reports. Population data forecasts are provided by Global Insight.

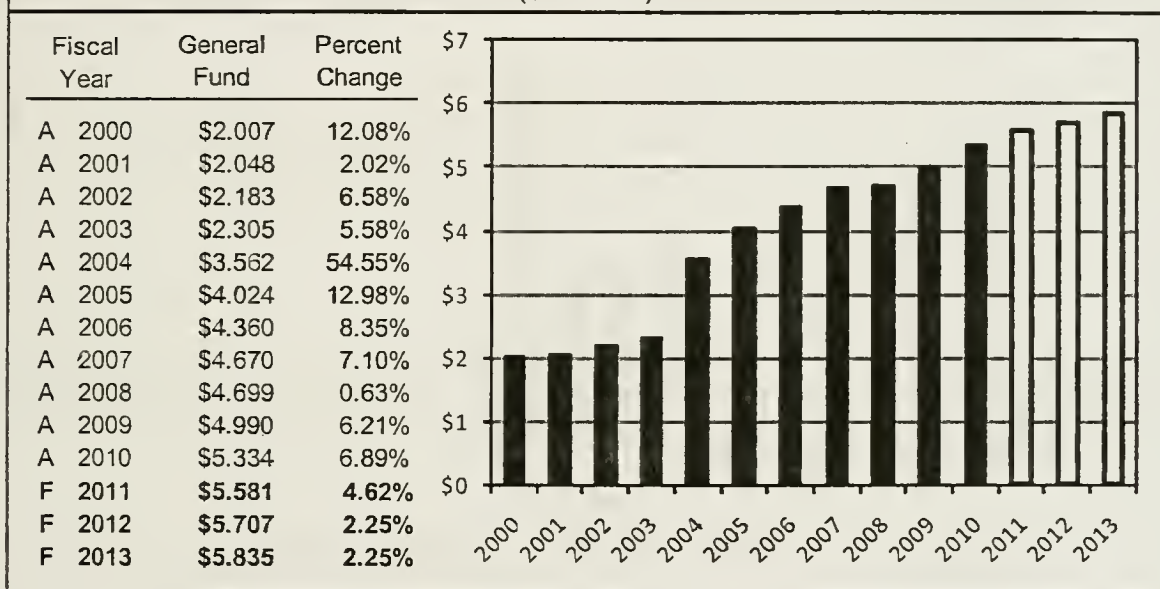
Tobacco Products Tax

2013 Biennium

Revenue Description

According to 16-11-111, MCA, the Department of Revenue (DOR) is directed to collect a tax of 85 cents per ounce of moist snuff and 50% of the wholesale price of all other tobacco products, excluding cigarettes. Tobacco products destined for retail sale and consumption outside Montana are not subject to this tax. The general fund and the health and Medicaid initiatives account each receive 50% of the tobacco products tax revenue after payments are made as per tribal revenue sharing agreements.

Table 1
Tobacco Products Tax
(\$ millions)



In FY 2004 there was a 54.52% increase in tobacco tax revenue due to SB 407 (2003 session). On May 1, 2003, SB 407 changed the tax on moist snuff from 12.5% of the wholesale price to 35 cents per ounce, an effective increase of 7 cents per ounce. SB 407 also increased the tax on all other tobacco from 12.5% of the wholesale price to 25% of the wholesale price.

On January 1, 2005, Initiative 149 (I-149) changed the tax on moist snuff to 85 cents per ounce and increased the tax on all other tobacco to 50% of the wholesale price. This tax increase explains the increase in total tobacco tax revenue in FY 2005 and FY 2006. Revenue increased 7.10% in FY 2007 as a result of a larger than usual proportion of refunds for unsalable tobacco product being credited back to sellers for sales in FY 2006.

Risks and Significant Factors

- Montana population age 15 and over has experienced an average annual increase of 1.17% between 2006 and 2010. This demographic was used for this forecast because, according to statistical analysis, this demographic tracked total tobacco consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc
- Moist snuff per capita consumption has experienced an increase of 2.20% from 2006 to 2010.
- The excise tax on tobacco products is imposed on retail consumers, but the tax is collected by wholesalers. In accordance with 16-11-112, MCA, wholesalers are allowed a discount equal to 1.5% of total tax collections to defray collection and administrative costs.

- Tobacco product sellers can obtain a refund credit for tobacco products that could not be sold due to defect. The average percentage of defective product credits of total collections in FY 2006 through FY 2010 (2.39%) is used to forecast refund credits for FY 2011 through FY 2013.
- Five Indian reservations in Montana have a tobacco revenue sharing agreement with the state: Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, and Crow Reservations. Under the revenue sharing agreements, the tribe tobacco tax and the state tobacco tax are the same. The tribe's share of the tax revenue is 150% of the per capita state tobacco tax collected for each of the tribes' enrolled members residing on the reservation.

Forecast Methodology

The tobacco tax revenue is comprised of two taxes: (1) moist snuff tax of 85 cents per ounce; and (2) all tobacco tax of 50% of the wholesale price. The six steps in estimating tobacco tax revenues are:

Step 1: Estimate per capita tobacco consumption, based on the trend over the past five years;

Step 2: Estimate projected gross tobacco tax revenue by multiplying the per capita consumption times the population over 15 times the tax rate;

Step 3: Calculate wholesaler discounts at 1.5% of total tobacco tax revenue;

Step 4: Calculate refunds for unsalable product, using the average percentage over last 5 years;

Step 5: Calculate tribes' revenue allocation, using the average percentage over last 5 years;

Step 6: Calculate state tobacco tax revenue and allocation.

Distribution

Wholesaler discounts and refund credits are subtracted from total tobacco tax revenue and tribal allocation payments are subtracted from net revenue to determine total state other tobacco tax revenue. Fifty percent of the state tobacco tax revenue goes to the general fund and 50% goes to the health and Medicaid initiatives account.

Table 2 Calculation & Distribution of Tobacco Tax Revenue Allocation			
Calculate Tobacco Tax Revenue	FY 2011	FY 2012	FY 2013
Total Tobacco Tax Revenue	\$12,193,181	\$12,467,947	\$12,748,626
Subtract Wholesaler Discounts	\$182,898	\$187,019	\$191,229
Subtract Refund Credits	\$291,446	\$298,014	\$304,723
Net Tax	\$11,718,837	\$11,982,914	\$12,252,674
Subtract Tribal Payments	\$557,007	\$569,559	\$582,381
Total State Tobacco tax Revenue	\$11,161,830	\$11,413,355	\$11,670,293
Allocate State Tobacco Tax Revenue			
Total to General Fund (50%)	\$5,580,915	\$5,706,678	\$5,835,147
Total to Health and Medicaid (50%)	\$5,580,915	\$5,706,678	\$5,835,147
Total State Tobacco Tax Revenue	\$11,161,830	\$11,413,355	\$11,670,293

Data Sources

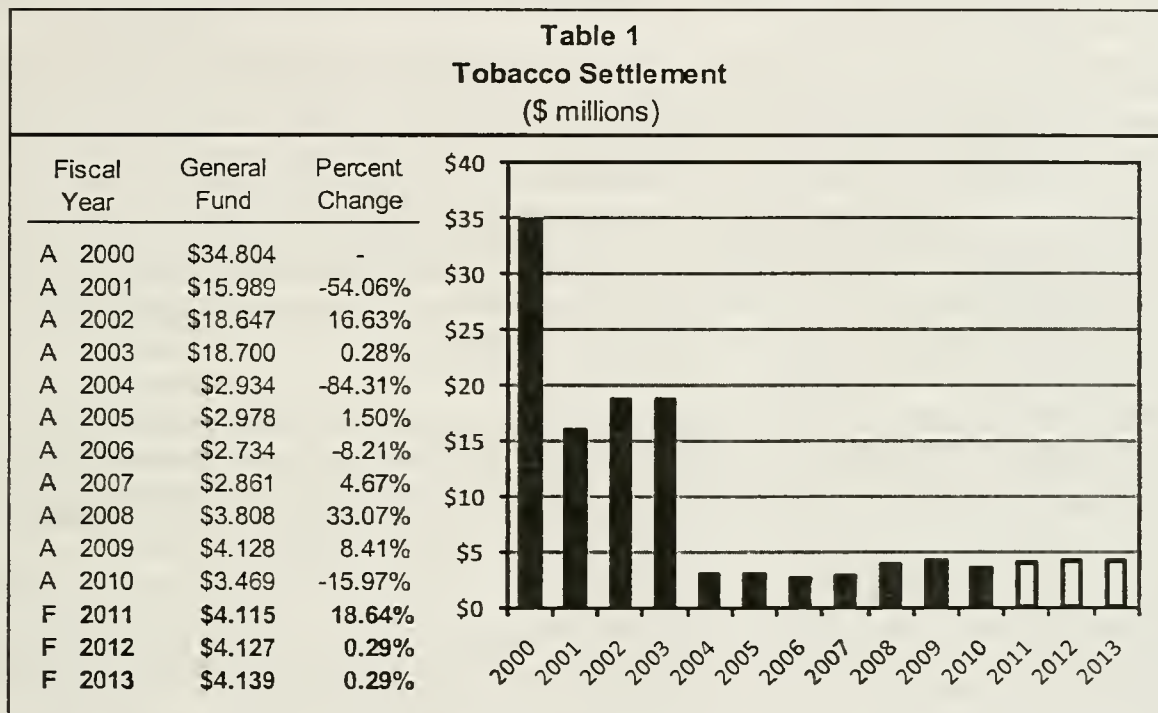
General fund revenue data is from SABHRS. Tobacco product collections and current tribe revenue allocation payments are provided by DOR reports. Other data provided by DOR includes the amount of discounts and credits applied to distributors of other tobacco products. Population data is provided by Global Insight, Inc.

Tobacco Settlement

2013 Biennium

Revenue Description

In 1998, Montana, along with 45 other states, signed a settlement agreement with major tobacco companies. Pursuant to the agreement Montana will receive approximately \$832 million by the year 2025. Payments are made annually beginning in FY 2000. The schedule of payments provided for under the settlement agreement is subject to change depending on adjustment criteria specified in the agreement.



In FY 2008 the base payment paid to states increased from \$8 billion to \$9 billion. This accounts for the large percentage increase from FY 2007 to FY 2008. However, the forecast payments, when adjusted for inflation, are decreasing or flat because cigarette consumption per capita (nationwide) has slightly decreased. Further, additional adjustments to the annual payments have been made since FY 2005 to compensate for changes in market share among the participating and non-participating manufacturers. These market share adjustments are forecast to continue through FY 2011.

Two major arrangements in the allocation of the tobacco settlement revenue have existed since the first payment was received in FY 2000. First, in November 2000, Montana's electorate passed Constitutional Amendment 35. The amendment required no less than 40% of tobacco settlement revenue to be deposited in a trust fund, with the remaining money deposited in the state general fund. The trust fund was established to provide a permanent source of revenue to fund the costs associated with programs for tobacco disease prevention and healthcare benefits, services, or coverage. The amendment further stated that 90% of the interest income from the trust fund could be appropriated; with 10% of the interest income from the trust fund to be deposited in the trust fund on or after January 1, 2001. The principal of the trust fund and 10% of the interest income was to be deposited in the trust fund and remain forever inviolate unless appropriated by a vote of two-thirds of the members of each house of the Legislature.

Second, in the November 2002 election, Initiative 146 (I-146) was passed. I-146 required the tobacco settlement payments received after June 30, 2003, be deposited as follows: 32% in a state special revenue account for tobacco prevention; 17% in a state special revenue account for health insurance benefits; 40% in the trust fund; and 11% in the state general fund.

Risks and Significant Factors

If Original Participating Manufacturer's (OPMs) and Subsequent Participating Manufacturer's (SPMs) lose market share to Non-Participating Manufacturer's (NPMs), OPMs and SPMs may be entitled to pay less. The NPM adjustment is conditional upon two factors: (1) whether there has been a loss in market share by participating manufacturers to NPMs; and (2) whether that loss is attributable to disadvantages resultant from the tobacco settlement.

A specific provision of the Master Settlement Agreement (MSA), referred to as the safe harbor provision, is relevant to this adjustment. Under the safe harbor provision, a state can avoid a payment reduction due to the NPM adjustment if a qualifying statute is enacted and "diligently enforced". The qualifying statute provides for an amount to be paid into an escrow account for each cigarette sold by NPMs in the state that is equivalent to the amount that would have been paid had the NPMs participated in the settlement.

Currently, all participating states (including Montana) have enacted qualifying statutes under the safe harbor provision. Because every state enacted these statutes, NPM adjustments were set to zero in the past. However, with the increasing market loss to NPMs, the meaning of "diligent enforcement" is now in question. "Diligent enforcement" is not defined in the MSA. Consequently, there is uncertainty as to how, or who, will determine the meaning of "diligent enforcement". States contend the decision should be made in state court, tobacco companies would rather the decision be made in arbitration. "Diligent enforcement" likely includes some combination of legislation and enforcement actions. An independent auditor determined that, beginning in 2003, participating manufacturers started losing market share to NPMs. Pursuant to this finding, OPMs and SPMs can pay a portion of their tobacco settlement payments into a dispute account. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved.

There are numerous possible outcomes to the dispute over the NPM adjustment. The following is a short list of possible outcomes over this disputed money.

- If it is found that the loss in market share for participating manufacturers was not due to disadvantages resulting from the tobacco settlement, then the monies withheld will likely be distributed to the states immediately.
- If a settlement is reached between the states and the participating manufacturers, payments could be reduced by some amount, the safe harbor statute could be revised, or some combination of the two. The fiscal impacts of such a settlement are unknown because the terms of such a settlement are uncertain.
- Litigation may extend beyond FY 2011. If this is the case, then OPMs and SPMs will continue to place the disputed money in the separate dispute account.
- It may be found that the loss in market share is due to disadvantages as a result of the tobacco settlement and that every state did not "diligently enforce" their safe harbor statutes. This finding would mean that states would have to face an undetermined reduction to the settlement funds they receive.
- Many possible outcomes exist and it is unknown at this time which scenarios are more likely. However, for purposes of this estimate, it is assumed that the dispute over the NPM adjustment will not be resolved prior to the FY 2011 payment, and that for FY 2011 through FY 2013, the participating manufacturers will withhold NPM adjustment amounts proportional to those withheld in FY 2008 through FY 2010.
- OPM shipment volume has decreased due to a decrease in overall cigarette consumption and a loss in market share to other manufacturers (OPM volume has decreased 38.6% between 1998 and 2010).
- Pursuant to the finding of an independent auditor, OPMs and SPMs can pay a portion of their tobacco settlement payments into a dispute account. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved.
- The largest NPM, General Tobacco, signed the tobacco settlement agreement in August 2004 and became a SPM beginning in FY 2005. Along with making normal MSA payments, General Tobacco will also make payments on a separate ten-year schedule for prior obligations. The prior obligation payments are based on the amount they would have paid under the MSA, had General Tobacco participated since the agreement's inception in 1998.

Forecast Methodology

The MSA provides for complex methods and formulas to calculate annual payments made by the settling tobacco companies to each state. Several clauses in the tobacco settlement set forth the precise calculations for the adjustments to the payments due from the two categories of settling companies: (1) OPMs and (2) SPMs.

Seven major steps are used to calculate the annual amount due to Montana from tobacco companies which are parties to the MSA. These calculations are summarized in Table 2 and include:

- Step 1.** The inflation adjustment;
- Step 2.** The volume adjustment to the base payment;
- Step 3.** The volume adjustment to the base operating income;
- Step 4.** Previously settled states' reduction;
- Step 5.** SPM payments;
- Step 6.** The NPM adjustment; and
- Step 7.** Montana's share of the total payment.

Table 2
Summary Calculation of Tobacco Settlement Revenue

Description	FY 2011	FY 2012	FY 2013
Non-Strategic Base Payment	\$8,139,000,000	\$8,139,000,000	\$8,139,000,000
Inflation Adjustment	\$3,723,179,853	\$4,079,045,419	\$4,445,586,912
Net Volume Adjustment	(\$4,682,560,361)	(\$5,017,462,336)	(\$5,362,799,139)
Previously Settled States Reduction	(\$878,597,004)	(\$881,162,397)	(\$883,757,295)
Adjusted OPM Base Payment	\$6,301,022,488	\$6,319,420,686	\$6,338,030,478
Adjusted SPM Base Payment	\$500,359,888	\$501,820,876	\$503,298,667
Adjustments	\$7,947,028	\$7,947,028	\$7,947,028
Sub-total Adjusted Base Payment	\$6,809,329,404	\$6,829,188,590	\$6,849,276,174
Montana's Percentage	0.4247591%	0.4247591%	0.4247591%
Total Adjusted Non-Strategic Payment	\$28,923,246	\$29,007,600	\$29,092,924
Strategic Base Payment	\$861,000,000	\$861,000,000	\$861,000,000
Inflation Adjustment	\$393,863,847	\$431,509,781	\$470,285,088
Volume Adjustment	(\$495,353,787)	(\$530,782,046)	(\$567,314,174)
Adjusted OPM Base Payment	\$759,510,060	\$761,727,735	\$763,970,914
Adjusted SPM Base Payment	\$52,931,547	\$53,086,101	\$53,242,432
Adjustments	(\$24,521)	(\$24,521)	(\$24,521)
Sub-total Adjusted Base Payment	\$812,417,086	\$814,789,314	\$817,188,825
Montana's Percentage	1.0447501%	1.0447501%	1.0447501%
Total Adjusted Strategic Payment	\$8,487,728	\$8,512,512	\$8,537,581
Total MT Payment	\$37,410,975	\$37,520,112	\$37,630,505

Distribution

Table 3 shows the calculation and distribution of Montana's share of the Tobacco Master Settlement Agreement for FY 2011 through FY 2013.

Table 3 Tobacco Settlement Payment Distributions (\$ millions)				
	FY 2010	FY 2011	FY 2012	FY 2013
Tobacco Trust Fund (40%)	14.960	14.964	15.008	15.052
Tobacco Prevention Account (32%)	10.091	11.972	12.006	12.042
Health Insurance Benefits Acc. (17%)	5.361	6.360	6.378	6.397
General Fund (11%)	3.469	4.115	4.127	4.139
Forecast Total MT Payment	37.400	37.411	37.520	37.631

Data Sources

Tobacco Settlement data was obtained from SABHRS, Price Waterhouse Coopers Tobacco Master Litigation Master Settlement website, and the Tobacco Master Settlement Agreement (MSA). Historical inflation data was obtained from the Bureau of Labor Statistics, and forecasted inflation was derived from Global Insight.



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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

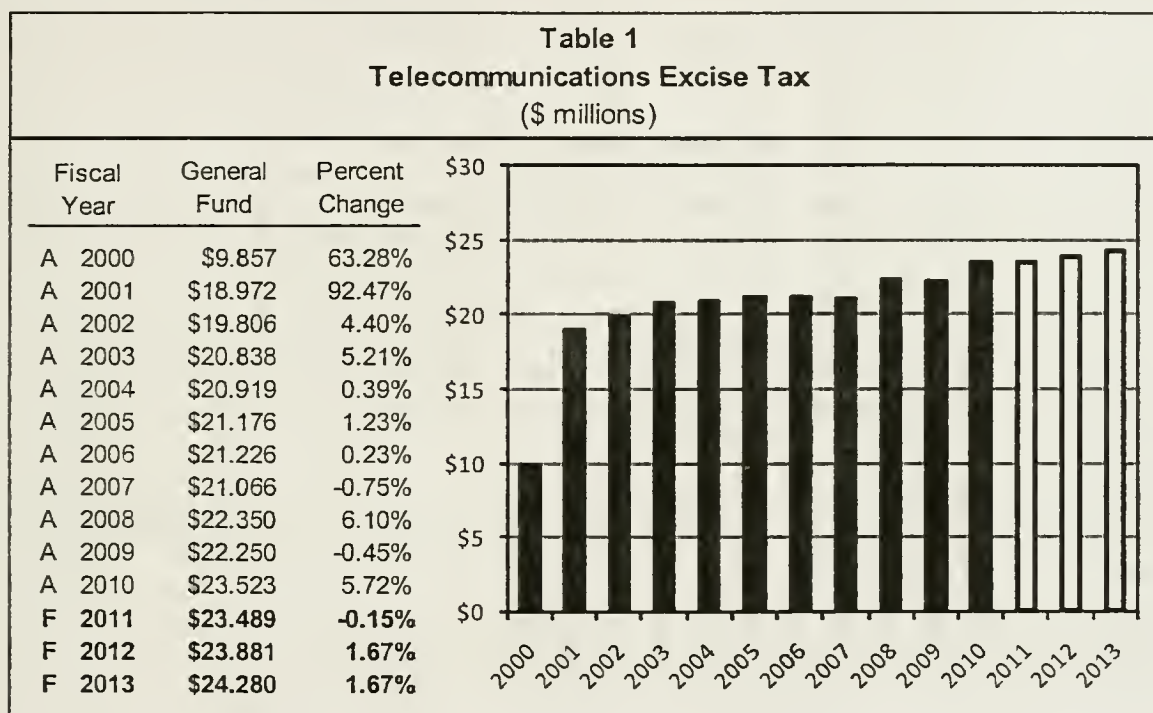
Retail Telecommunications Excise Tax

2013 Biennium

Revenue Description

Under 15-53-130, MCA, a 3.75% excise tax is assessed on retail telecommunications services. Telecommunications services are defined as two-way transmission of information over a telecommunications network that originates or terminates in the state and are billed to a customer with a Montana service address. Telecommunications service providers are required to collect the tax and make quarterly payments within 60 days after the end of each quarter

Table 1 shows general fund revenue from retail telecommunications excise tax collections for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.



Risks and Significant Factors

- Audit collections and penalties introduce significant variation in annual collections masking underlying trends. Timing issues affect the fiscal year attribution of audit collections. In particular, FY 2009 audit assessments were not resolved and collected until FY 2010, understating FY 2009 revenue and overstating FY 2010 revenue. The magnitude of audit assessments appears to be rising. For FY 2011, they are approaching \$5 million. However, these assessments have been appealed and may not be decided until late FY 2012.
- The telecommunications excise tax replaced the telephone company license tax on January 1, 2000. Before FY 2000, annual revenues averaged \$6 million. The large increases in FY 2000 and FY 2001 reflect the transition from the telephone company license tax to the retail telecommunications excise tax.

Forecast Methodology

Step 1. Calculate the average annual trend growth rate of tax collections. The compounded annual growth rate between FY 2004 to FY 2008 of 1.67% best represents the trend in revenues, as timing of the posting of audit revenues skew the data in FY 2009 (down) and FY 2010 (up).

Step 2. The selected growth rate (1.67%) is used to project total collections through FY 2013 starting from the FY 2008 collections base. The table presents actual collections for FY 2009 and FY 2010 creating the appearance of a lower growth rate (less than the 1.67%) in FY 2011.

Table 2 illustrates the trends in actual revenue collections for the excise tax, and audit and penalty collections. The forecast of total collections for FY 2011, FY 2012 and FY 2013 is also presented with associated implied growth rates.

Table 2							
Total Collections							
(\$ millions)							
Fiscal Year		Excise Tax		Audits & Penalties		General Fund	Percent Change
A	2003	\$20.294	+	\$0.544	=	\$20.838	
A	2004	\$20.081	+	\$0.838	=	\$20.919	0.39%
A	2005	\$21.173	+	\$0.003	=	\$21.176	1.23%
A	2006	\$21.226	+	\$0.166	=	\$21.392	1.02%
A	2007	\$21.066	+	\$0.697	=	\$21.762	1.73%
A	2008	\$21.128	+	\$1.223	=	\$22.350	2.70%
A	2009	\$21.905	+	\$0.345	=	\$22.250	-0.45%
A	2010	\$21.121	+	\$2.402	=	\$23.523	5.72%
F	2011					\$23.489	-0.15%
F	2012					\$23.881	1.67%
F	2013					\$24.280	1.67%

Distribution

All telecommunications excise tax collections are allocated to the general fund pursuant to 15-53-156, MCA.

Data Sources

Revenue data is compiled from SABHRS, tax report data provided by the Department of Revenue.

Institutional Reimbursement

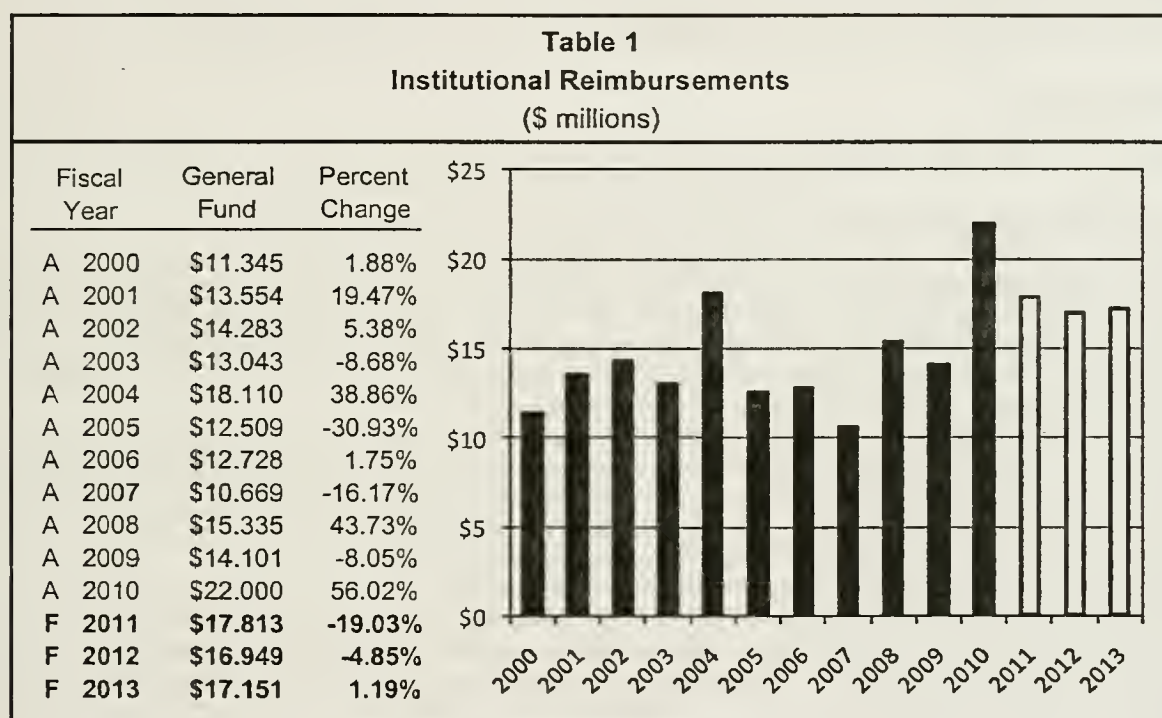
2013 Biennium

Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operates facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay debt service obligations associated with the institutions' mortgages (90-7-220 and 221, MCA). After the debt service obligations are met, payments for care at the institutions are deposited in the general fund.

Table 1
Institutional Reimbursements
(\$ millions)



There have been significant changes in both the infrastructure and operation of the institutional facilities. These changes have affected the way expenses were paid at each institution and have affected general fund reimbursement. A brief summary of these changes follow.

New facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC and in 1997 for MSH. Institutional reimbursement revenue is reduced by the amount of the mortgage payments.

The MSH became Medicare-certified. This allows MSH to bill Medicare for a greater portion of eligible residents' expenses than in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001. In FY 2004, the department received additional revenue from billing Medicare for services in previous years. However, in FY 2005, the Medicare reimbursement formula for MSH was changed and the department was required to refund some payments it had received in FY 2004.

Average populations have changed at some of the institutions. DPHHS moved some residents from one institution to another and moved some residents back into their communities in assisted-living programs or other arrangements. At the same time, court-ordered admissions have increased in recent years. As part of a lawsuit settlement, DPHHS

agreed to move some MDC residents to assisted-living facilities in their communities. Since these facilities are not state institutions, the state does not receive reimbursement for services at these assisted-living facilities. Also a separate, secure unit has been established at MDC. Services provided through this unit are not eligible for federal reimbursement through Medicaid.

Legislation passed by the 2003 Legislature (HB 722 and HB 743) significantly affected reimbursements by making state institutions subject to state health care facility taxes. These taxes, which are part of the cost allowance for Medicaid reimbursement, increased reimbursements. Also, HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 now requires that they be deposited in the general fund.

Risks and Significant Factors

- DPHHS expects the average daily number of residents at the three state-run facilities to remain steady for FY2011 through FY 2013.
- The increased revenue received in FY 2010 is primarily due to the enhanced FMAP rate resulting from the American Recovery and Reinvestment Act (ARRA).

Forecast Methodology

There are four steps to estimating general fund receipts:

Step 1. Estimate daily reimbursement rates for each type of reimbursement at each institution.

- The primary reimbursement sources are payments from patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income (SSI) disability payments. Private and SSI reimbursement rates are based upon estimates provided by DPHHS.
- Insurance rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage.
- Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Medicare payments per day are based upon information provided by DPHHS.
- Medicaid pays costs that residents cannot. Therefore, the Medicaid daily rate is equal to the full cost rate less the patient/family and SSI reimbursements per day. Medicaid is a joint federal-state program so only the federal portion comes to the state as net reimbursement. Medicaid also pays some ancillary service costs that are not on a daily basis, such as medications and laboratory work. Historically, the variability in Medicaid payment rates can be attributed to, in part, changes in the Federal Medical Assistance percentage (FMAP) rates.

Step 2. Estimate the population and number of care days for which each institution will be reimbursed.

Step 3. Multiply the reimbursement rates by the number of care days to obtain reimbursement revenue.

- Private reimbursement for a fiscal year is the average daily reimbursement times the number of care days. Medicaid reimbursement for a fiscal year is the average daily reimbursement times the number of Medicaid eligible residents. Care days are based on the average number of (eligible Medicaid) residents times 365 days in a year (366 in leap years).

Step 4. Subtract the institution's mortgage payments to derive the general fund revenue.

- General fund revenue is total reimbursements for MDC, MSH and MMHNCC minus debt service payments for MDC and MSH. Debt service payments are provided by DPHHS and are shown in Table 2.

Distribution

Table 2 shows the calculation of forecast general fund revenue from institutional reimbursements in FY 2011 through FY 2013.

Table 2 Institutional Reimbursements to the General Fund (\$ millions)						
Fiscal Year	Reimbursements			Debt Service		General Fund
	MDC	MSH	MMHNCC	MDC	MSH	
F 2011	\$9.981	+ \$7.008	+ \$3.751	- \$1.017	- \$1.910	= \$17.813
F 2012	\$9.126	+ \$7.214	+ \$3.531	- \$1.014	- \$1.909	= \$16.949
F 2013	\$9.362	+ \$7.196	+ \$3.514	- \$1.014	- \$1.908	= \$17.151

Data Sources

DPHHS provided actual and projected per day reimbursement rates and care days, as well as information regarding debt service for the facilities. FMAP percentages are based on OBPP estimates.

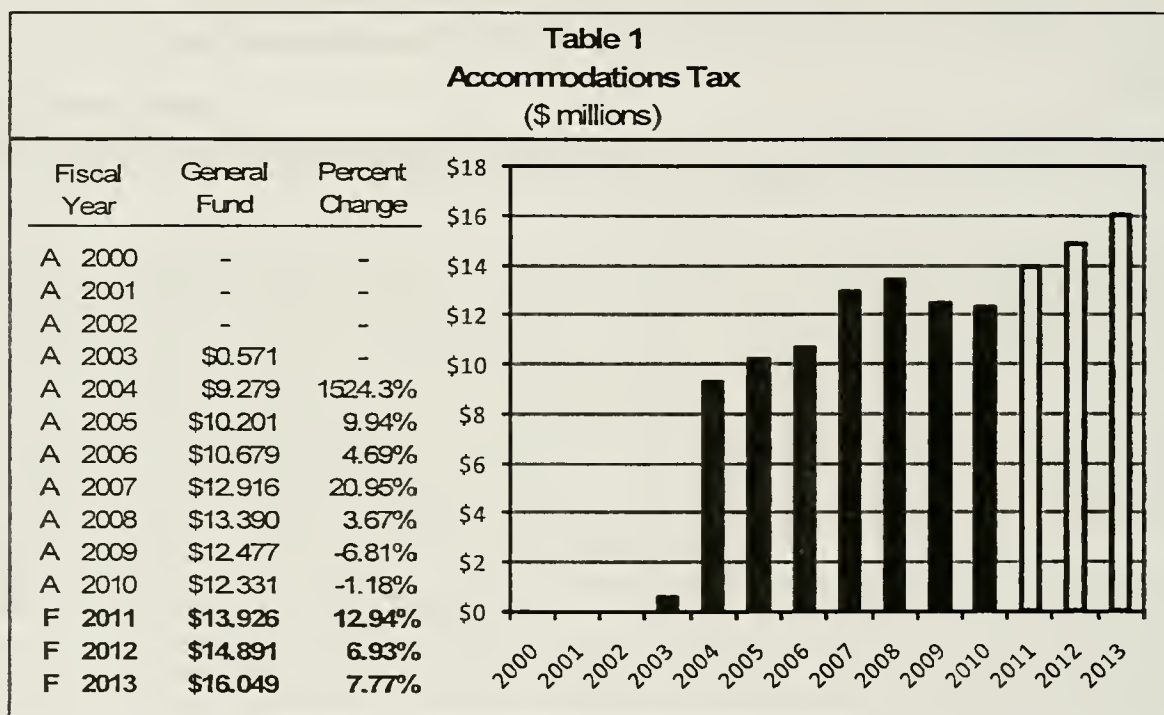
Accommodations Tax

2013 Biennium

Revenue Description

In accordance with 15-68-102, MCA, a 3% **sales** tax is levied on all charges for accommodations at lodging facilities and campgrounds in the state. All of this revenue is deposited in the Montana general fund. In addition to the 3% **sales** tax, Montana also charges a **use** tax of 4% on all accommodations. Revenue from the lodging facility **use** tax is distributed to various entities after the Department of Revenue (DOR) deducts administration costs and the portion of the tax paid by state government agencies for state employee lodging is remitted to the agencies. This revenue is principally used for the purposes of promoting tourism.

Table 1 shows actual revenue for the accommodations **sales** tax distributed to the general fund for FY 2000 through FY 2010 and forecast values for FY 2011 through FY 2013.



Only revenue from the lodging facility **sales** tax is deposited in the general fund, while revenue from the **use** tax is distributed to various other funds. SB 407 (2003 session) enacted the 3% **sales** tax on accommodations. The general fund received no revenue from accommodation taxes before FY 2003. The lodging facility **sales** tax was collected for only one month in FY 2003. The first full year of collections is FY 2004. As disposable income fell in FY 2009 and FY 2010, both in Montana and in the U.S., people spent less on lodging facilities and as a result, tax revenue saw declines in those years.

Forecast Methodology

There are three steps in forecasting lodging facility **sales** tax:

Step 1. Estimate lodging receipts.

Step 2. Estimate vendor allowances. There is a vendor allowance of 5% for filing in a timely manner, but may not exceed \$1,000 for the **sales** tax.

Step 3. The lodging facility **use** tax is 4% of the taxable value of accommodations charges and the **sales** tax is 3% of the accommodations charges.

Table 2 shows the actual use tax, the sales tax, the vendor allowance, and the sum of these three numbers divided by the total tax rate of 7% yields taxable accommodations receipts.

Table 2 Accommodation Taxes (\$ millions)					
Fiscal Year	Taxable Receipts	Use Tax (4%)	Vendor Allowance	Sales Tax (3%)	Total Tax
A 2008	\$473.036	\$18.921	\$0.708	\$13.483	\$32.405
A 2009	\$442.383	\$17.695	\$0.123	\$13.148	\$30.844
A 2010	\$433.106	\$17.324	\$0.521	\$12.978	\$30.302
F 2011	\$464.726	\$18.589	\$0.521	\$13.926	\$32.515
F 2012	\$496.894	\$19.876	\$0.521	\$14.891	\$34.767
F 2013	\$535.475	\$21.419	\$0.521	\$16.049	\$37.468

Table 3 summarizes the actual distribution of the use tax.

Table 3 Accommodations Use Tax Distribution (\$ millions)			
	FY 2011	FY 2012	FY 2013
DOR Tax Administration	\$0.141	\$0.141	\$0.142
State Agency Reimbursements	\$0.203	\$0.203	\$0.203
MT Heritage Preservation Society	\$0.400	\$0.400	\$0.400
Montana Historical Society	\$0.178	\$0.191	\$0.207
University System	\$0.446	\$0.478	\$0.517
Fish, Wildlife, & Park	\$1.160	\$1.244	\$1.344
Commerce	\$12.236	\$13.104	\$14.147
Regional Travel Promotion	\$4.015	\$4.305	\$4.652
Total Use Tax Revenue¹	\$18.589	\$19.876	\$21.419

¹Table 3 does not match Table 2 due to accrual reversals and amended returns.

Distribution

After the DOR administration and agency reimbursements are made, the remainder is distributed as follows:

1. The Montana heritage preservation and development account receives \$400,000.
2. The remainder is distributed as follows:
 - a. 1.0% to the Montana Historical Society for roadside historic sites and signs;
 - b. 2.5% to the university system for tourism research;
 - c. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance;
 - d. 67.5% to the Department of Commerce for statewide tourism promotion; and
 - e. 22.5% to regional tourism promotion agencies.

Data Sources

Fiscal year end revenues are from SABHRS MTGL0109 report. Additional data was provided by DOR's GENTAX system.

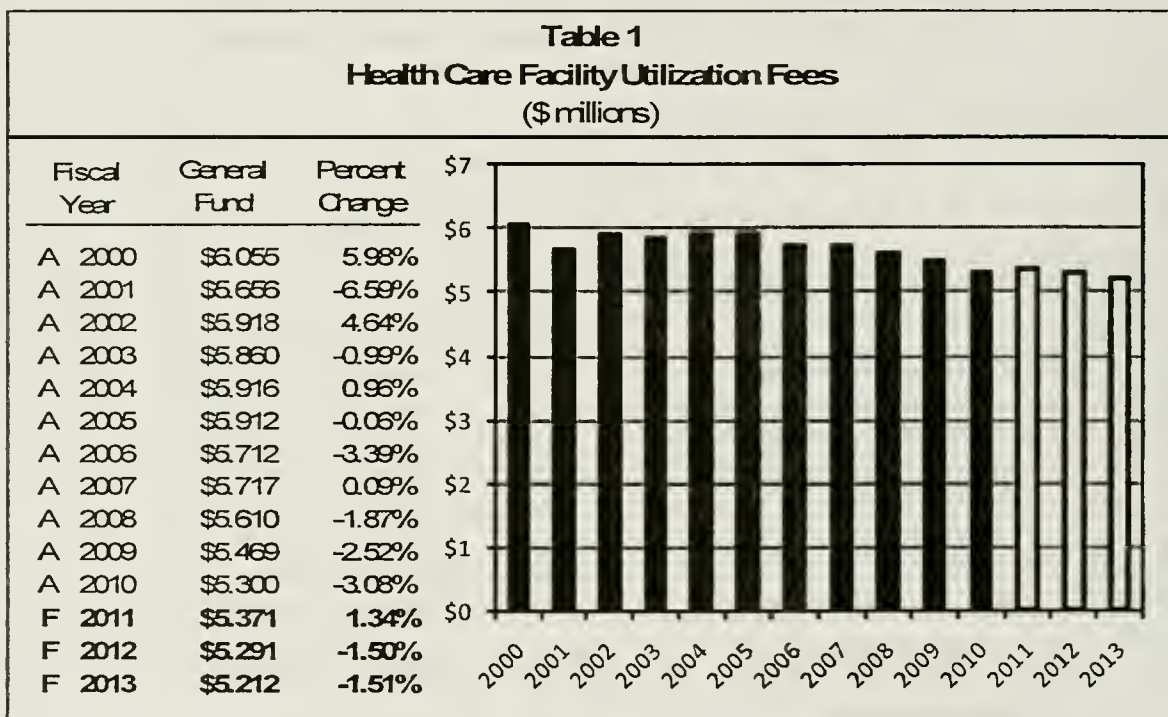
Health Care Facility Utilization Fees

2013 Biennium

Revenue Description

Per 15-60-102, MCA, Montana imposes a per bed day fee on nursing facilities and intermediate care facilities for the developmentally disabled. The fee for nursing facilities was \$2.80 per bed day through FY 2002. The fee was raised to \$4.50 in FY 2003, to \$5.30 in FY 2005, and to \$7.05 in FY 2006. In FY 2007 it was raised to \$8.30 (15-60-102, MCA). Through FY 2002, all fees were allocated to the general fund. Beginning in FY 2003, \$2.80 of the fee per day is allocated to the general fund and the remainder is allocated to a state special revenue fund.

The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). Fees collected from the facilities operated by the Department of Public Health and Human Services (DPHHS) are allocated 30% to the general fund and 70% to the prevention and stabilization special revenue fund.



Nursing facility fees were enacted in HB 93 of the 1991 Session. The fee was \$1 per bed day for FY 1992 and \$2 per bed day for FY 1993 and applied only to bed days reimbursed by a third-party payer, such as insurance or a public assistance program. All revenue was deposited in the general fund. HB 333 (1993 Session) applied the fee to all bed days beginning in FY 1994. HB 333 also raised the fee to \$2.80 beginning in FY 1995, and allocated all revenue to the nursing facilities fee state special revenue account. SB 83 (1995 Session) allocated all revenue to the general fund beginning in FY 1996.

The 2003 Legislature passed three bills that changed health care facility fees. HB 705 set the nursing facilities fee at \$4.50 in FY 2004 and \$5.30 beginning in FY 2005, and allocated the additional revenue to the nursing facilities fee account. HB 743 made the Montana Mental Health Nursing Care Center (MMHNCC) subject to the nursing facility fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization account. HB 722 created a new fee equal to 5% of charges for care that applied only to the Montana Developmental Center (MDC). The revenue from the new fee is allocated 30% to the general fund and 70% to the prevention and stabilization fund.

In 2005, the Legislature passed two bills, HB 749 and SB 82, which changed health care facility fees. HB 749 increased the facility bed tax to \$7.05 per day in FY 2006 and to \$8.30 per day in FY 2007. The increased revenue

from fees collected from non-state facilities is allocated to the nursing facilities fee account. SB 82 increased the bed tax on intermediate facilities for the developmentally disabled from 5% to 6% and amended the definition of facilities to which the 6% bed tax applies to include intermediate care facilities for the mentally retarded. SB 82 was effective immediately on passage and was retroactive in its effect, back to the beginning of tax year 2005.

Risks and Significant Factors

- Taxable bed days at non-state facilities declined at an average rate of 1.63% over the past five years. Bed days are projected to continue to decline at that rate in FY 2011 through FY 2013. Revenue from non-state facilities is declining over the forecast period because fewer bed days are estimated.

Forecast Methodology

Revenue is estimated separately for fees from private nursing homes, the MMHNCC, and the MDC. The estimate is based on forecast bed days for the MMHNCC and budget estimates for the MDC. Forecast bed days for non-state owned facilities are based on the historic trend.

Step 1. Bed days for FY 2011 through FY 2013 for the MMHNCC are forecast by DPHHS, which operates the facility. Total collections equal the number of bed days multiplied by the fee per bed day of \$8.30. Thirty percent of collections are allocated to the general fund and seventy percent are allocated to the prevention and stabilization account. For the period of FY 2011 through FY 2013, bed days at MMHNCC are estimated to average 29,957.

Step 2. MDC is the only facility subject to the intermediate care facility utilization fee. The fee is 6% of the cost of care billed to residents and third parties. The cost of care for FY 2011 through FY 2013 is estimated by DPHHS, which operates the facility, and is based on planned numbers of residents and expected costs. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization account.

Distribution

Total collections for each fund are calculated by summing the collections from non-state facilities and collections from the two state facilities. Table 2 shows total projected collections for each fund and the total projected collections for all funds for FY 2011 through FY 2013.

Table 2						
Total Health Care Facilities Utilization Fee						
Collections and Distribution						
(\$ millions)						
Fiscal Year	General Fund (30% of Total Collections)		Nursing Facility Utilization Fee Account		Prevention and Stabilization Account	Total Collections
F 2011	\$5.371	+	\$9.862	+	\$0.818	= \$16.052
F 2012	\$5.291	+	\$9.701	+	\$0.822	= \$15.815
F 2013	\$5.212	+	\$9.543	+	\$0.824	= \$15.579

Data Sources

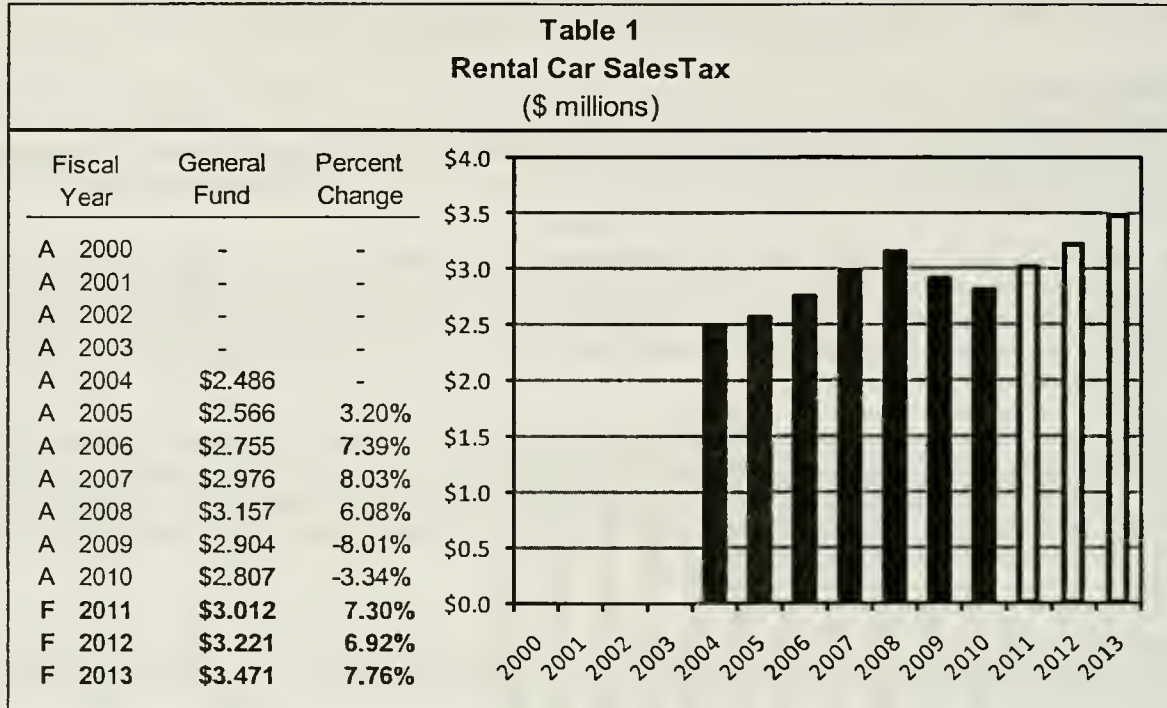
Past collections are from SABHRS Data Mine. Past bed days are from the Department of Revenue as reported on tax returns. Future bed days and cost of care at MMHNCC and MDC are from DPHHS.

Rental Car Sales Tax

2013 Biennium

Revenue Description

Montana levies a 4% tax on base rental charge on rental vehicle sales per 15-68-102 (1b), MCA. The rental vehicle sales tax collections began in FY 2004. Table 1 shows actual revenue for the rental car sales tax for FY 2004 through FY 2010 and projected revenue for FY 2011 through FY 2013.



Risks and Significant Factors

- Rental car sales tax revenue is highly reliant on the tourism and business travel. A downturn in the national economy could result in a decline in revenue.
- An increase in business travel and increased visits by foreign and out-of-state tourists increases collections.

Forecast Methodology

There are two steps to calculate rental car sales tax

Step 1. Calculate an average growth rate.

Step 2. Apply the growth rate to project revenues from the FY 2010 collections base.

Due to the limited number of years this tax has been levied, the growth rate for tax revenue is linked to the forecast of accommodations tax, using the growth in Montana taxable accommodations receipts.

Distribution

This tax is 100% distributed to the general fund

Data Sources

General fund collections as reported in SABHRS.



GOVERNOR
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STATE OF MONTANA

OTHER GENERAL FUND REVENUE SECTION 9

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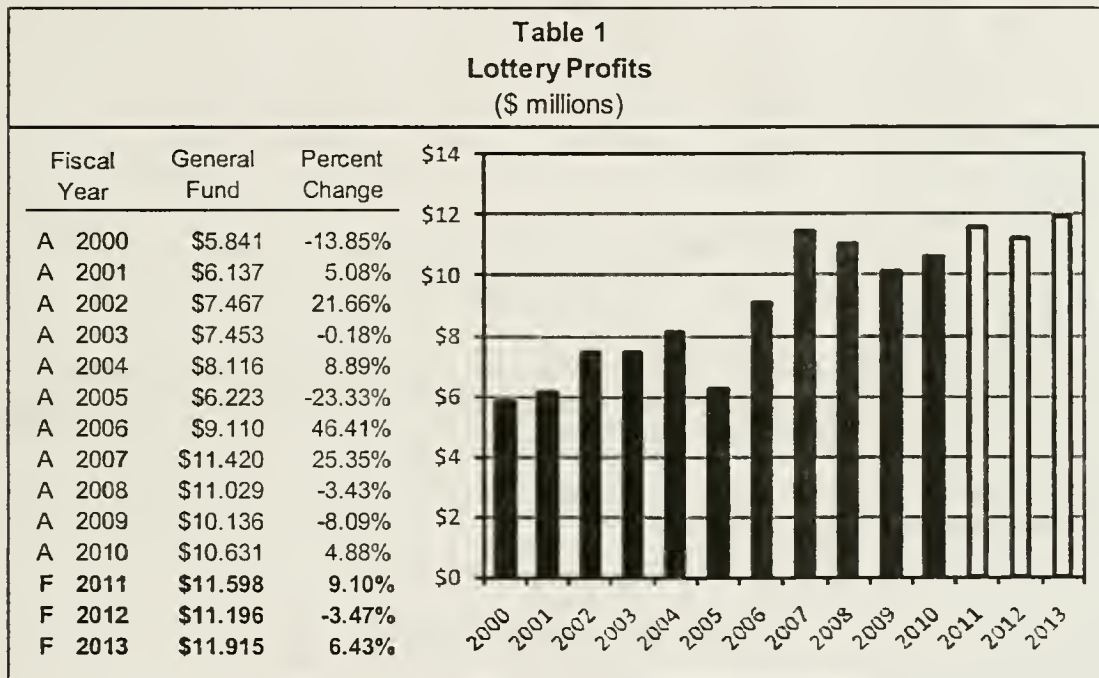
Lottery Profits

2013 Biennium

Revenue Description

In accordance with 23-7-402, MCA, net revenue from the operation of the lottery is to be deposited quarterly in the general fund. Net revenue from the lottery includes the sum of ticket sales, short-term investment pool (STIP) and Multi-State Lottery Association interest and miscellaneous income, less payment of prizes, commissions, and operating expenses.

Table 1 shows actual lottery revenue transferred to the general fund for FY 2000 to FY 2010 and forecasted revenues for FY 2011 through FY 2013.



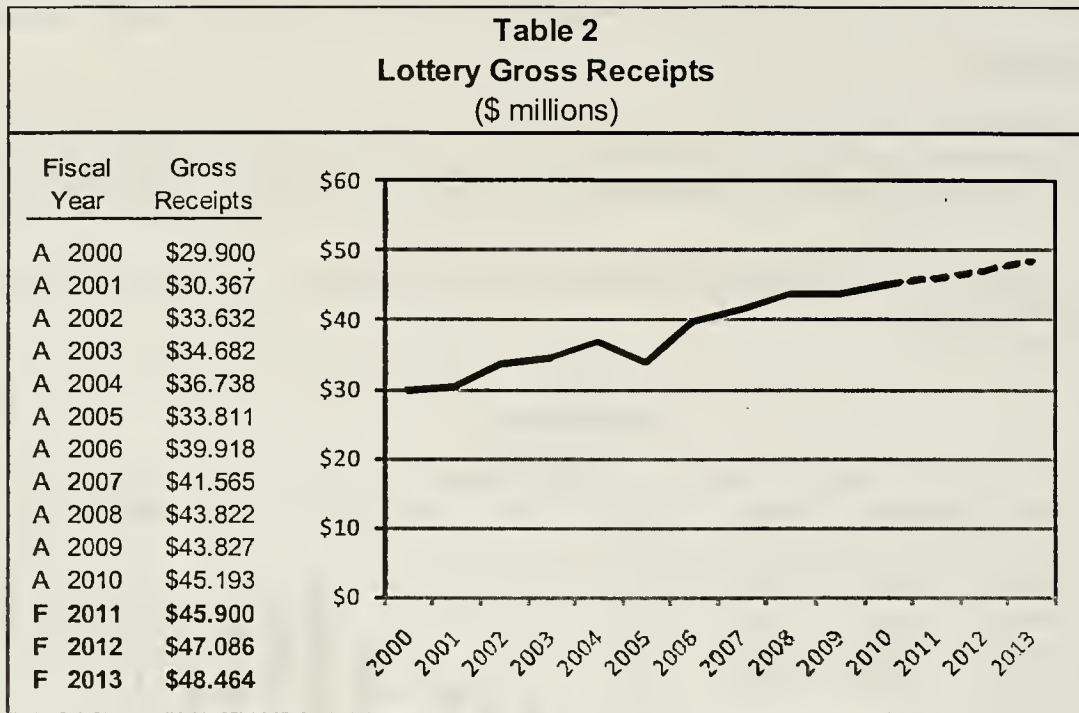
Lower than usual Powerball jackpots are the main reason for the large decrease in revenues from FY 2004 to FY 2005. Beginning in FY 2006 the chances of winning the Powerball were decreased in order to increase the jackpot levels, and this increased player participation for FY 2006 and FY 2007. In FY 2008 lottery sales continued to rise, however, lottery expenses rose slightly faster resulting in a net decrease to the general fund.

Forecast Methodology

Lottery revenue is forecast in three main steps:

Step 1. Forecast the amount of prizes and commissions paid out for the gross receipts.

Table 2 shows actual gross receipts for FY 2000 through FY 2010, and forecast receipts for FY 2011 through FY 2013.



Step 2. The prizes and commissions are estimated as a percentage of gross receipts. There is a clear upward trend in gross receipts. A statistical regression is used to forecast gross receipts for FY 2011 through FY 2013.

Table 3 shows actual prizes and commission, the ratio of prizes and commission to gross receipts for FY 2000 through FY 2010, and forecast values for FY 2011 through FY 2013.

Fiscal Year	Gross Receipts	Prizes and Comm.	% of Gross Receipts
A 2000	\$29.900 ÷	\$17.321 =	57.93%
A 2001	\$30.367 ÷	\$17.462 =	57.50%
A 2002	\$33.632 ÷	\$19.277 =	57.32%
A 2003	\$34.682 ÷	\$19.599 =	56.51%
A 2004	\$36.738 ÷	\$20.771 =	56.54%
A 2005	\$33.811 ÷	\$19.769 =	58.47%
A 2006	\$39.918 ÷	\$23.056 =	57.76%
A 2007	\$41.565 ÷	\$23.886 =	57.47%
A 2008	\$43.822 ÷	\$25.403 =	57.97%
A 2009	\$43.827 ÷	\$25.598 =	58.41%
A 2010	\$45.193 ÷	\$25.941 =	57.40%
F 2011	\$45.900 ÷	\$26.425 =	57.57%
F 2012	\$47.086 ÷	\$27.107 =	57.57%
F 2013	\$48.464 ÷	\$27.901 =	57.57%

Step 3. Deduct budgeted operating expenses. Operating expenses and other revenue are forecast, and the pieces are added together to yield the general fund revenue. There were abnormally large levels of depreciation and amortization in past years, which has declined in recent years. It is forecast that these values will remain at the FY 2010 levels in the future.

Table 4 Total General Fund Revenue (\$ millions)						
Fiscal Year	Gross Receipts		Other Income	Prizes & Comm.	Expenses	General Fund Revenue
A 2009	\$43.827	+	\$0.084	-	\$25.598 - \$8.177	= \$10.136
A 2010	\$45.193	+	\$0.038	-	\$25.941 - \$8.659	= \$10.631
F 2011	\$45.900	+	\$0.038	-	\$26.425 - \$7.915	= \$11.598
F 2012	\$47.086	+	\$0.038	-	\$27.107 - \$8.821	= \$11.196
F 2013	\$48.464	+	\$0.038	-	\$27.901 - \$8.686	= \$11.915

There is a small portion of other revenue, mainly attributable to the short-term interest earnings of prize money. Other revenue is calculated to remain at the FY 2010 levels for FY 2011 through FY 2013.

Data Sources

Fiscal year-end revenues were obtained from SABHRS MTGL0109 report, and other lottery figures were provided by the Montana State Lottery and through the web site, <http://www.montanalottery.com/annualreports.xsp>.

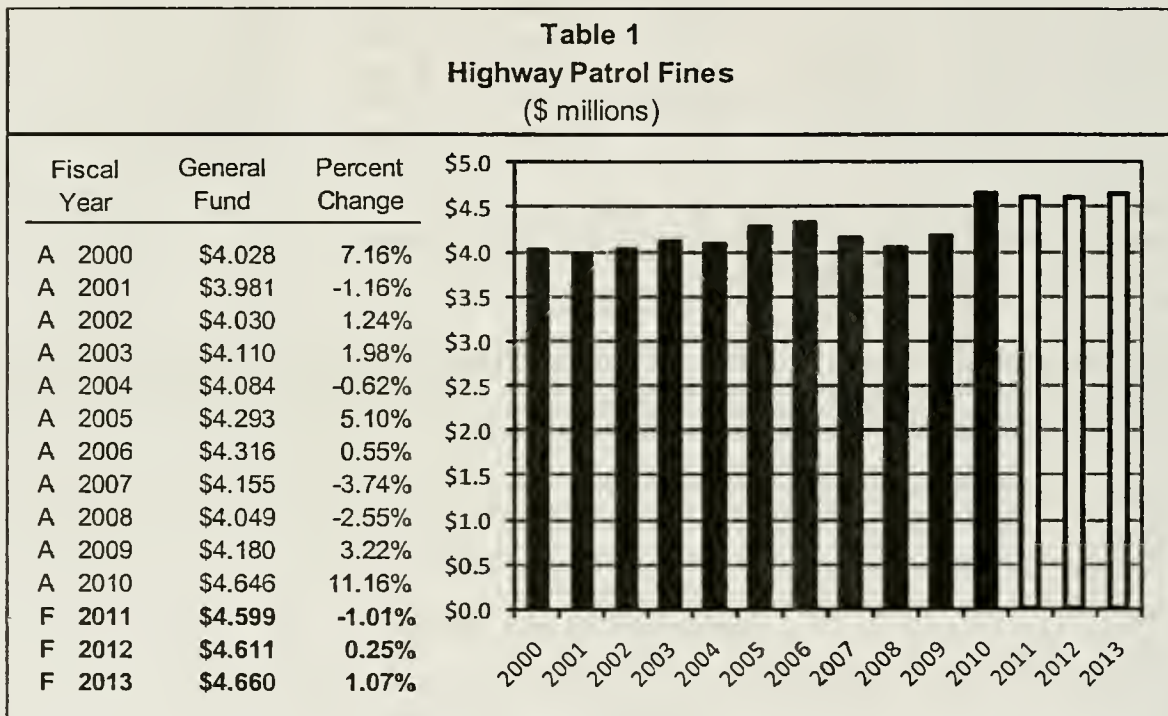
Highway Patrol Fines

2013 Biennium

Revenue Description

Highway patrol fines are provided for in Title 61, Chapter 8, parts 3 and 7, MCA. Citation fines are collected in justice courts. Highway patrol fines are distributed 50% to the county general fund and 50% to the state general fund, pursuant to 3-10-601, MCA. One-hundred percent of fines resulting from highway patrol officer stops for highway use or vehicle violations processed in any other court are paid into the state general fund (61-12-701, MCA).

Table 1 shows general fund revenue from highway patrol fines for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.



The table shows that fine collections demonstrate occasional sharp increases (FY 2000 and FY 2005) followed by several years of modest growth or decline. Recent declines in revenue are attributable to the combined effects of higher fuel prices and the 2005 Legislative Session SB 264 (anti-quota bill) introduced highway patrol officer management changes. Highway patrol fine collections are forecast to gradually increase.

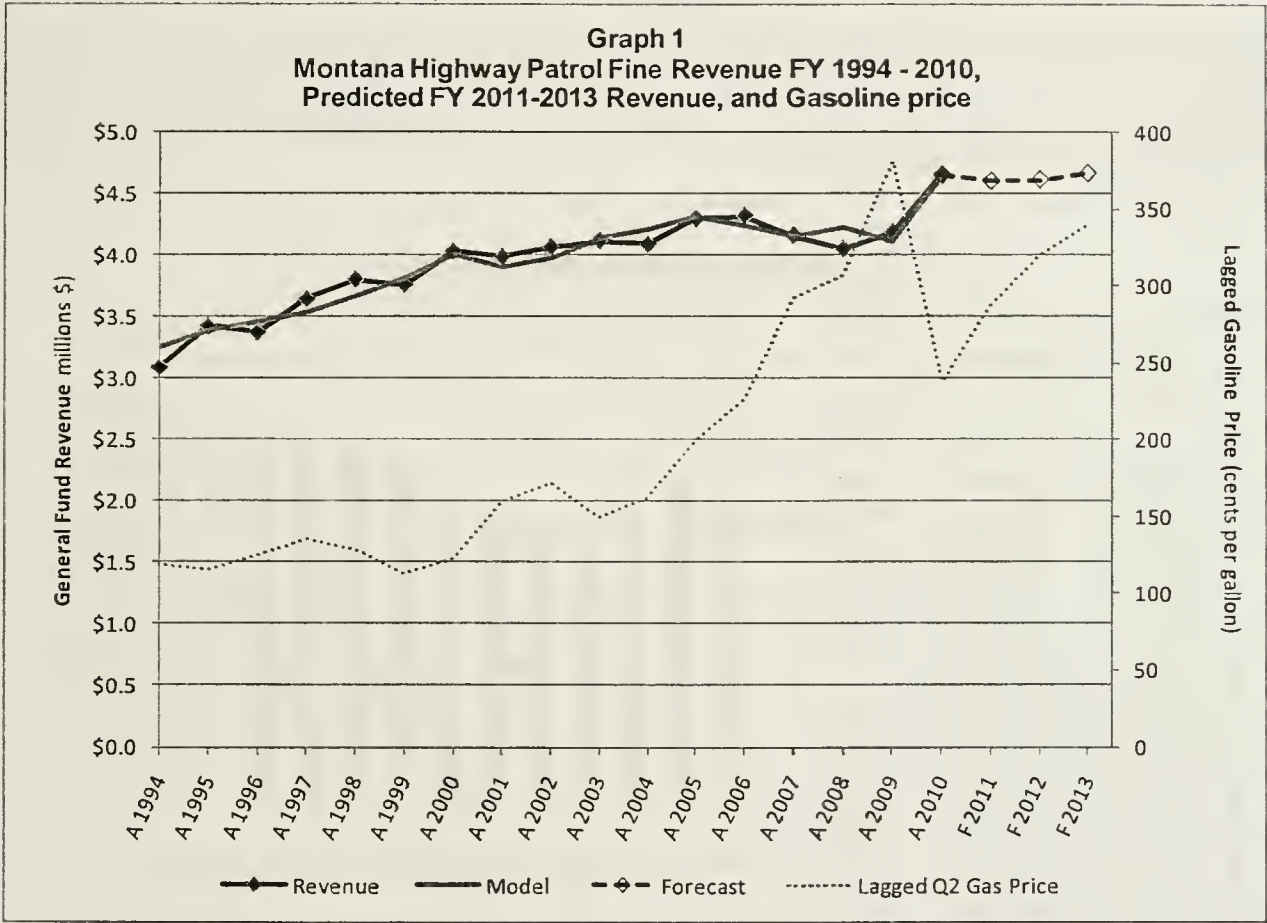
Risks and Significant Factors

- Significant revenue peaks are attributable to major legislative changes. Specifically, FY 2000 revenues increased following the reintroduction of numerical speed limits. In FY 2005, implementation of HB 195 (2003 session) penalties for driving under the influence (DUI) and (SB 13) lower legal blood alcohol thresholds, generated revenue increases.
- Prior to FY 2006, a simple time trend analysis of revenue collected would produce good estimates. Revenue declined in FY 2007 and FY 2008 despite legislation thought to lead to increased revenue collections.
- Enforcement effort was maintained despite the impact of gasoline prices as reports show patrol miles driven in recent years have increased or been maintained.
- Recent decreases in collections appear to be related to increases in gasoline prices and lowered highway traffic volumes. Recent increases in revenue appear to follow decreasing fuel prices.

Forecast Methodology

The estimate is based on a regression model that forecasts revenue based on time trend, and actual and forecast 2nd quarter (spring) gasoline prices lagged one year. There are adjustments for legislation in FY 2000 and FY 2005. Including gasoline prices in the model improved the model fit and accounted for recent declines and increased revenue.

The model fit and forecast is presented in Graph 1. The graph illustrates that revenues tend to increase over time, but slow (or decrease) when gasoline prices rise rapidly.



Distribution

All highway patrol fines received by the state are directed to the general fund.

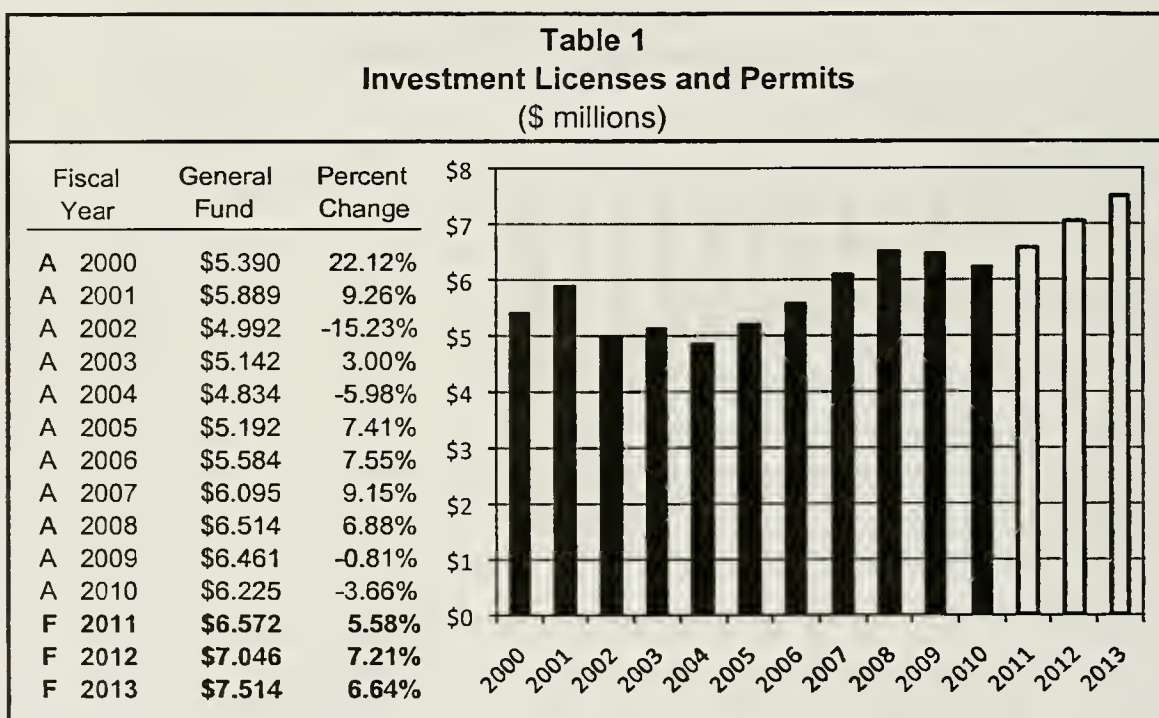
Data Sources

SABHRS provided historical tax revenue. Highway Patrol headquarters staff provided information on trooper management changes, and fiscal year operations reports. Gasoline prices and forecast were obtained from the IHS Global Insight October 2010 national forecast.

Revenue Description

Individuals and firms who plan to sell securities in Montana must register with the State Auditor and pay fees as specified in 33-10-209, MCA. The fee to register as a broker-dealer or investment advisor is \$200 a year. The fee for salespersons and representatives working for a broker-dealer or investment advisor is \$50.

Newly issued securities not regulated at the federal level, or traded on regulated or self-regulating exchanges, or otherwise exempt from state regulation, must be registered with the State Auditor's Office (SAO). The first year registration fees are \$200 plus 0.1% of the issue value over \$100,000, up to a maximum fee of \$1,000. In succeeding years, the registration may be renewed for a fee of 0.1% of the value of securities to be offered that year with a minimum fee of \$200 and a maximum fee of \$1,000



Risks and Significant Factors

- Despite an increase in market volatility and a decline in financial sector jobs, securities brokers-dealers and their sales representatives continue to register to do business in Montana in increasing numbers. This is thought to be precautionary registration to avoid unlicensed securities dealing. This trend may end.
- Legislative Audit Division recommendations has the SAO applying securities fees by the (sub) class of securities offered, not simply the value of the aggregated securities on offer. This is estimated by the Securities Division to increase fees by \$750,000 per calendar year, starting on January 1, 2011. These changes have been incorporated into this estimate. In early 2004, the SAO unsuccessfully attempted to implement this interpretation of the law.
- Most Montana registered securities agents and sales representatives are not state residents.
- Mandatory, standardized, nationwide electronic registration of securities broker-dealer firms, securities sales representatives, investment advisors and investment advisors sales representatives through the Financial Industry Regulatory Authority (FINRA) became effective in January 2003. This registration appears to have accelerated revenue growth during the FY 1997 to FY 2004 period. Since FY 2005, revenues have more

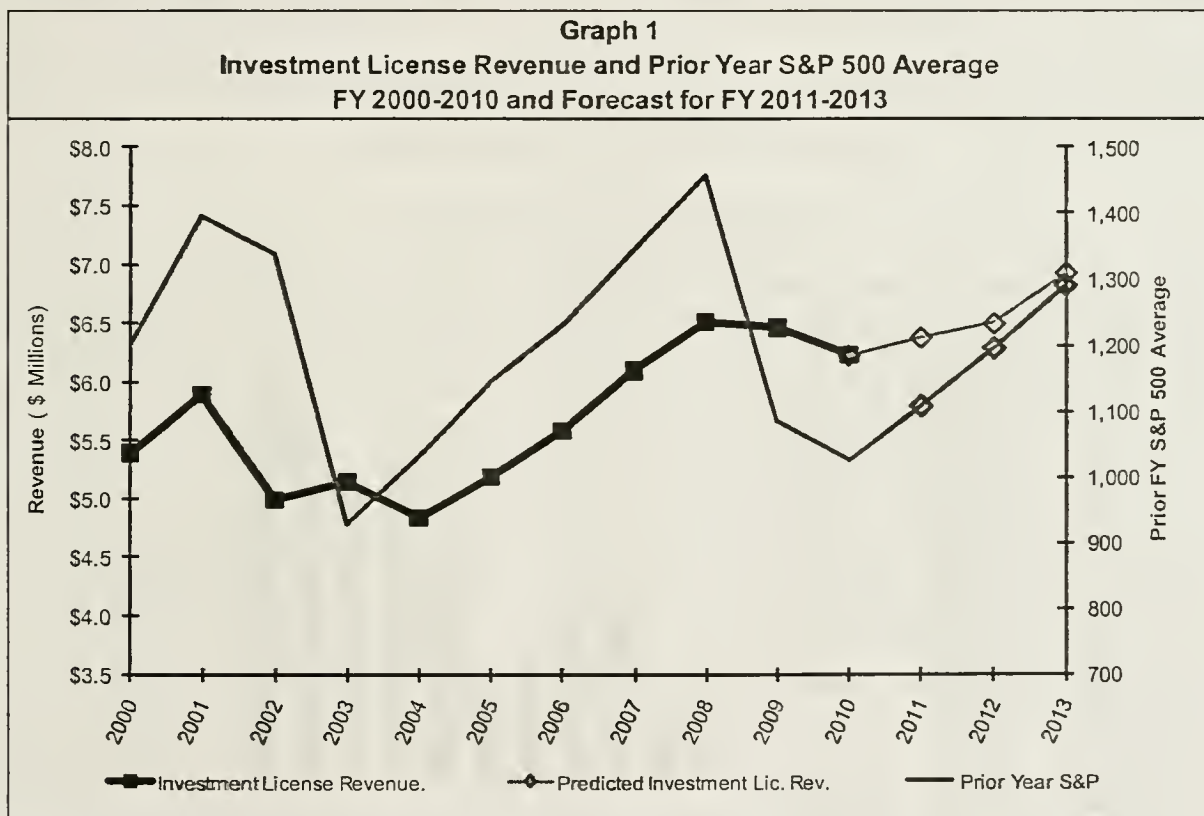
closely tracked nationwide employment in the finance and insurance sector trend and the Standard & Poor's 500 (S&P 500) index.

Forecast Methodology

Step 1. Insurance license and permit revenue is estimated using a regression model of national employment in the financial and insurance sector, prior fiscal year performance of the S&P 500 index, with adjustments for transition to the mandatory nationwide standardized electronic registration of securities brokers and dealers since 2003.

Step 2. The projections are anchored to the Global Insight forecasts of employment in the national financial and insurance sector, and the S&P 500 index.

The model fit and forecast are presented in Graph 1. The graph shows that revenues move in concordance with financial markets.



Data Sources

Historical tax revenue is extracted from SABHRS. The Securities Department of the State Auditor's Office provided information on law changes, counts of securities broker-dealers, securities sales representatives, investment advisors, and investment advisor sales representative registrations. The S&P 500 stock index and forecast is from the Global Insight October 2010 national forecast.

Public Contractors' Gross Receipts Tax

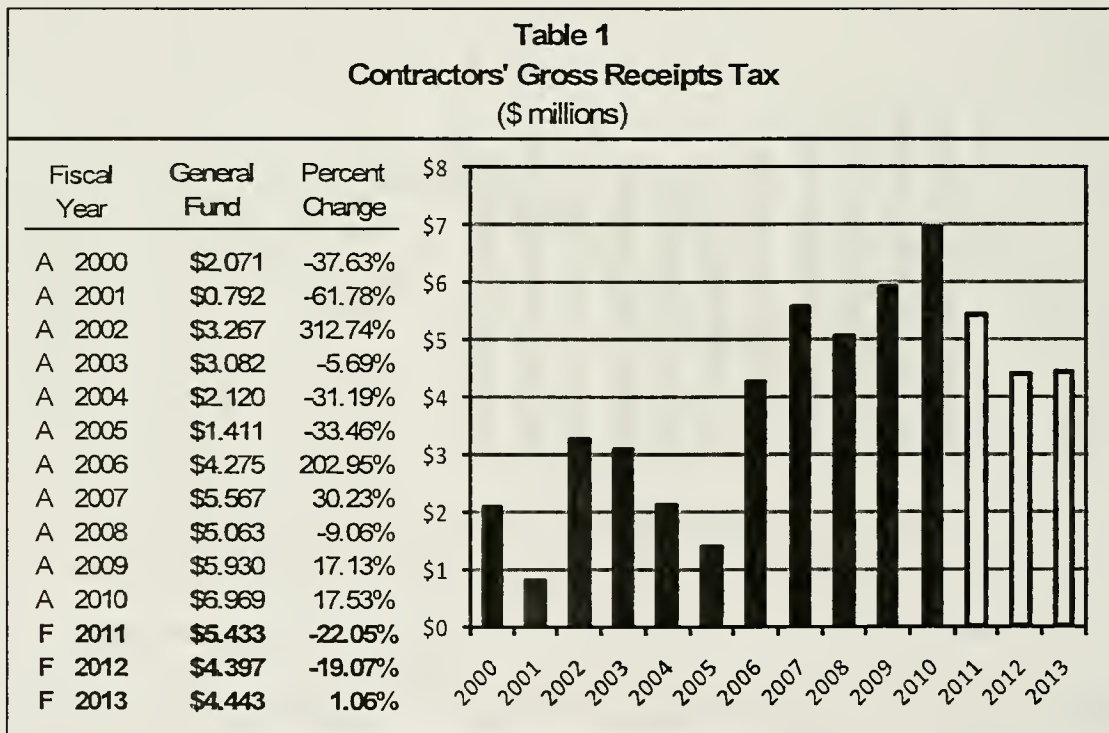
2013 Biennium

Revenue Description

In accordance with 15-50-205, MCA, a 1% tax is assessed on the gross receipts contractors receive for construction work within the state for federal, state, or local governments. Contractors may use the amount of gross receipts tax paid as an offset or credit against either their corporation license tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractors' gross receipts taxes paid. Any tax not credited or refunded is allocated to the general fund.

Table 1 shows general fund revenue from the contractor's gross receipts tax. General fund revenue increased, by large amounts in FY 2009 and FY 2010. This is believed to be due to the passage of the America Recovery and Reinvestment Act, also known as the Federal Stimulus. As the stimulus money runs out, it is estimated general fund revenue will decrease in FY 2011 and FY 2012.

SB 323 (2005 session) allows public contractors to carry forward individual income or corporate license tax credits for up to five years; this change appears to have an unexpectedly low fiscal impact.



Risks and Significant Factors

- Some of the variation in revenue is largely the result of refund processing fluctuations. Due to administrative and technological changes, backlogs of refunds accumulated in fiscal years 1999, 2002, 2003, and 2006. The high gross receipts of FY 2007 resulted in increased revenue despite the large number of refunds processed. Following the completion of administrative changes in FY 2006 and the processing of the ensuing backlog through FY 2008, the Department of Revenue (DOR) expects all future backlog amounts will be processed in the following year. This should nearly eliminate revenue fluctuations due to processing.
- Federal contracts are taxable, and if federal dollars were to decrease, then public contractors' gross receipts revenue is also likely to decrease.

Forecast Methodology

There are three steps in calculating public contractor's gross receipts tax revenue:

Step 1. Estimate gross tax receipts based on the expected volume of public contracts. Montana Department of Transportation (MDT) contracts are estimated based on the budget prepared by OBPP. Other contractor payments historically fluctuate; therefore, other contractor payments for FY 2011 are the average payments in FY 2009 and FY 2010. Payments for FY 2012 and FY 2013 are estimated using the average of FY 2002 through FY 2008, because of the stimulus money being spent, and then indexed for inflation.

Step 2. Forecast total tax credits and refunds. The ratio of credits and refunds to the total gross receipts for FY 2002 to FY 2010 is used to forecast credits and refunds for FY 2011 through FY 2013.

Step 3. Calculate the tax liability. Subtract the credits and refunds to obtain the general fund revenue.

Table 2 shows actual gross receipts from MDT, other contractors' gross receipts, credits and refunds, the general fund estimate from FY 2002 through FY 2010 and forecast values for FY 2011 through FY 2013.

Table 2 Gross Receipts, Refunds, and Credits (\$ millions)				
Fiscal Year	MDT	Other	Credits and Refunds	General Fund
A 2002	\$217.23	\$288.11	(\$1.79)	\$3.27
A 2003	\$226.11	\$344.53	(\$2.62)	\$3.08
A 2004	\$241.63	\$358.78	(\$3.88)	\$2.12
A 2005	\$239.25	\$335.96	(\$4.34)	\$1.41
A 2006	\$254.39	\$361.38	(\$1.88)	\$4.27
A 2007	\$262.78	\$570.78	(\$2.77)	\$5.57
A 2008	\$271.91	\$424.51	(\$1.90)	\$5.06
A 2009	\$290.29	\$538.45	(\$2.36)	\$5.93
A 2010	\$327.79	\$560.46	(\$1.91)	\$6.97
F 2011	\$332.06	\$549.45	(\$3.38)	\$5.43
F 2012	\$330.00	\$383.44	(\$2.74)	\$4.40
F 2013	\$330.00	\$390.97	(\$2.77)	\$4.44

Data Sources

Gross tax receipts, tax credits, property refunds and net general fund collections by month were obtained from DOR and SABHRS. MDT budgeted amounts were obtained from OBPP and inflation estimates are from Global Insight.

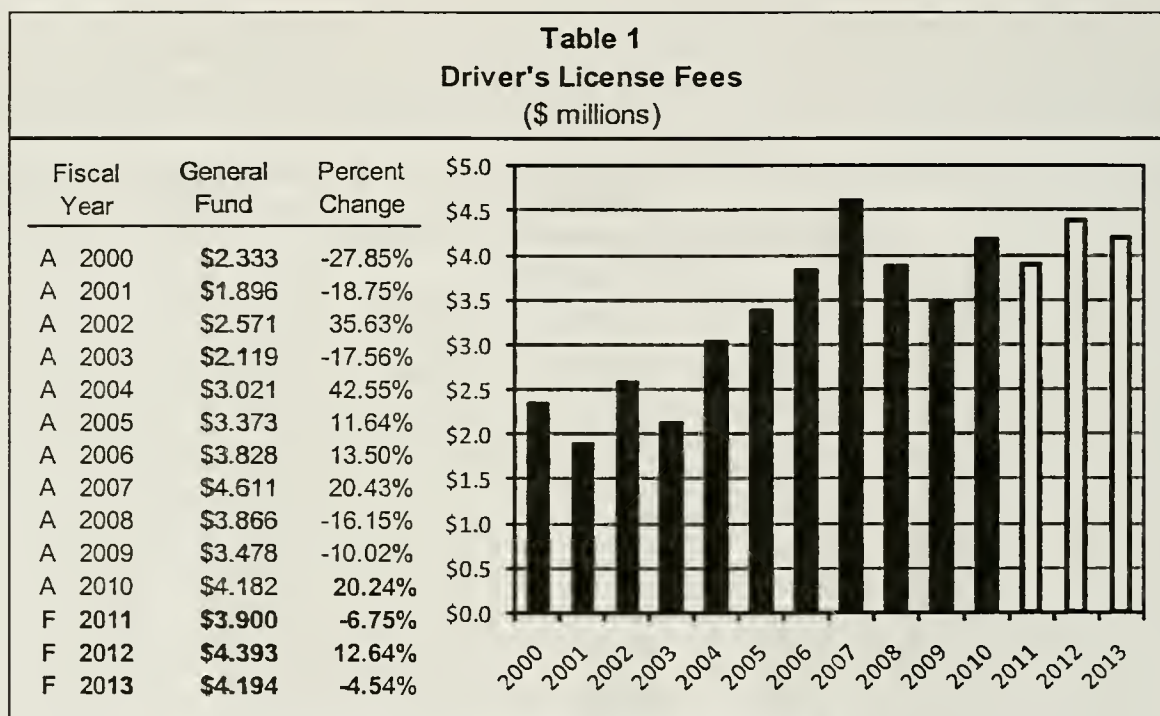
Driver's License Fees

2013 Biennium

Revenue Description

Fees for driver's licenses, commercial driver's licenses, and motorcycle endorsements are set in 61-5-111, MCA. The fee for replacing a lost or destroyed license is set in 61-5-114, MCA. The distribution of revenue from driver's license fees is set in 61-5-121, MCA. Counties retain a small percentage of the fees that they collect.

Table 1 shows general fund revenue from driver's license fees for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.



Basic fees for driver's licenses are five dollars per year of validity. Additional fees are charged for motorcycle endorsements (\$0.50 per year). Commercial driver's licenses (\$10 per year for inter-state and \$8.50 per year for intra-state licenses) are valid for a five-year period and include basic driving privileges that run concurrently with the commercial license term. Reduced fees are available to active military personnel for basic driver's licenses and motorcycle endorsements. Replacement licenses are \$10. A \$0.50 renewal notice fee is charged at issue of a license. Most license fees were revised by the 2003 Legislature. Commercial drivers licenses were reduced to 5 years and the fees were revised by HB 192 during the 2005 session. The distribution of fees was corrected by the 2007 Legislature in HB 23.

Risks and Significant Factors

- Revenue swings between fiscal years are principally due to the four-year to eight-year conversion of driver's licenses. While transition rules were put in place to reduce large declines in revenue, peak-to-trough variations grew with fee changes in FY 2003. These fluctuations have persisted throughout the first full eight-year cycle of license renewal which ended in 2007.
- Actual counts of licenses issued by fiscal year, term, and type are not readily available to allow simple modeling of expected revenue. Past license issuance is determined by dividing collections by license type by the likely weighted age-adjusted average licensing fees, reported in SABHRS.
- First year restrictions for drivers 18 years of age and under, beginning in FY 2006 have lengthened the transition to full licensure and reduced the number of drivers 16 and under. However, data from the Motor

Vehicles Division suggests that by age 17, the proportion of 17 year olds with licenses is likely to be equal to that of the recent past and has not materially reduced driver's license revenue.

Forecast Methodology

Forecasting general fund driver's license fee revenue:

- Step 1. Calculate the number of licenses by term by aging historical counts of the driving population.
- Step 2. Calculate the average licensing fee for basic licenses. Apply statutory fees to the distribution of licensed drivers at renewal age, by license term, to calculate the weighted average driver's license fee by fiscal year.
- Step 3. Estimate the number of driver's licenses issued. The apparent number of driver's licenses issued each fiscal year from 2000 through 2008 by dividing the SABHRS reported total basic driver's license collections by the average fees.
- Step 4. Forecast number of licenses to be issued. Based on the average of the prior seventh and eighth year of the licensing cycle project fiscal year issuance of basic driver's licenses, adjust for growth in driving age population.
- Step 5. Estimate total basic driver's license revenue. Multiply projected driver's licenses by expected fees.

The results of Steps 1 through 5 are summarized in Table 2.

Table 2 Estimate of Basic Driver's License Collections						
Fiscal Year	Standard Driver's License Fees	Age Adj. Average Fee	Base Driver Growth	Estimated Number of Licenses	Forecast Std. License Fees	
A 2000	\$3,307,555	÷ \$25.56		= 129,398		
A 2001	\$2,346,197	÷ \$25.53		= 91,910		
A 2002	\$3,806,557	÷ \$25.59		= 148,775		
A 2003	\$2,863,413	÷ \$25.70		= 111,408		
A 2004	\$4,092,825	÷ \$30.64		= 133,589		
A 2005	\$4,675,055	÷ \$32.21		= 145,146		
A 2006	\$3,899,811	÷ \$32.25		= 120,931		
A 2007	\$4,764,769	÷ \$32.49		= 146,656		
A 2008	\$3,961,623	÷ \$32.58		= 121,604		
A 2009	\$3,542,739	÷ \$32.38		= 109,417		
A 2010	\$4,238,408	÷ \$32.31		= 131,163		
F 2011		\$32.27	x 100.7%	x 122,499	=	\$3,982,369
F 2012		\$32.19	x 100.8%	x 139,368	=	\$4,485,612
F 2013		\$32.19	x 100.8%	x 133,039	=	\$4,282,128

- Step 6. Estimate revenue from other licenses. Commercial driver's license, motorcycle endorsement, and replacement license revenue is projected based on their respective five-year weighted average proportion, relative to basic driver's license revenue. These estimates are reported in Table 3. Because counties retain a small portion of the driver's license fee when they issue driver's licenses on behalf of the Motor Vehicles Division, and this retention is not reported in SABHRS, the amount is calculated and added back to the base collections.

Table 3 Driver's License Total Revenue by Fee Type (\$ millions)							
Fiscal Year	Basic Driver's Licenses	Commercial Licenses	Motorcycle Endorsements	Replacement Licenses	Renewal Fee	License Revenue	Estimate of county Retention
A 2006	\$3.900	\$0.429	\$0.033	\$0.351	\$0.058	\$4.770	\$0.012
A 2007	\$4.765	\$0.548	\$0.051	\$0.324	\$0.071	\$5.759	\$0.013
A 2008	\$3.962	\$0.438	\$0.039	\$0.326	\$0.058	\$4.822	\$0.011
A 2009	\$3.543	\$0.384	\$0.035	\$0.320	\$0.054	\$4.335	\$0.010
A 2010	\$4.238	\$0.529	\$0.050	\$0.309	\$0.065	\$5.192	\$0.013
Relative Proportion							
A 2006	1.000	0.110	0.009	0.090	0.015	1.223	0.0030
A 2007	1.000	0.115	0.011	0.068	0.015	1.209	0.0027
A 2008	1.000	0.110	0.010	0.082	0.015	1.217	0.0028
A 2009	1.000	0.108	0.010	0.090	0.015	1.224	0.0028
A 2010	1.000	0.125	0.012	0.073	0.015	1.225	0.0031
Wt. Avg. Proportion		0.114	0.010	0.080	0.015	1.219	0.0029
Revenue by License Type							
F 2011	\$3.982	\$0.454	\$0.041	\$0.318	\$0.060	\$4.855	\$0.012
F 2012	\$4.486	\$0.512	\$0.046	\$0.358	\$0.067	\$5.468	\$0.013
F 2013	\$4.282	\$0.488	\$0.044	\$0.342	\$0.064	\$5.220	\$0.012

Step 7. Allocate statutory distributions of revenue to the state traffic education and state motorcycle safety accounts, by type of licensing revenue. The remainder is distributed to county or state general funds. The basis for distributing fees for each license is shown in Table 4 as set by 61-5-121, MCA.

Table 4 Driver's License Fee Allocation				
	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Replacement License
State General Fund (remainder)	76.80%	80.56%	33.20%	87.50%
State or County General Fund ¹	2.50%	2.50%	3.34%	3.75%
Traffic Safety Education	20.70%	16.94%	0.00%	8.75%
Motorcycle Safety Training	0.00%	0.00%	63.46%	0.00%
	100.00%	100.00%	100.00%	100.00%

¹ County general fund receives the distribution if the license is issued at a county office (vs. a MVD office).

The estimates from the bottom of Table 3 are multiplied by the corresponding distribution percentage listed in Table 4 to estimate driver's license receipts allocated to the state special revenue accounts and to the state general fund. Counties only receive their distribution if they issue the license. Only a small portion of total collections is directed to the county general fund (approximately 0.250% in FY 2010). Based on SABHRS data, less than 10% of all licenses are issued by counties. The state special revenue and general fund estimates presented in Table 5 have been adjusted for the share of licenses issued at county offices. The general fund portion is also presented in Table 1.

Table 5 Allocation of Driver's License Fee Revenue (\$ millions)				
Fiscal Year	General Fund	Traffic Safety Education	Motorcycle Safety Training	Total
A 2010	\$4.182	\$0.979	\$0.031	\$5.192
F 2011	\$3.900	\$0.929	\$0.026	\$4.855
F 2012	\$4.393	\$1.047	\$0.029	\$5.468
F 2013	\$4.194	\$0.999	\$0.028	\$5.220

Data Sources

SABHRS provided historical tax revenue data. State licensed drivers, by age group, from FY 1996 through FY 2005 are from the Federal Highway Administration website, based on FHWA – 562 submissions by the state. The FHWA form 562 reports for FY 2006 through FY 2008 were provided by the Motor Vehicles Division of the Department of Justice. FY 2009 and FY 2010 are estimated from SABHRS revenue collections. Population estimates are from Global Insight.

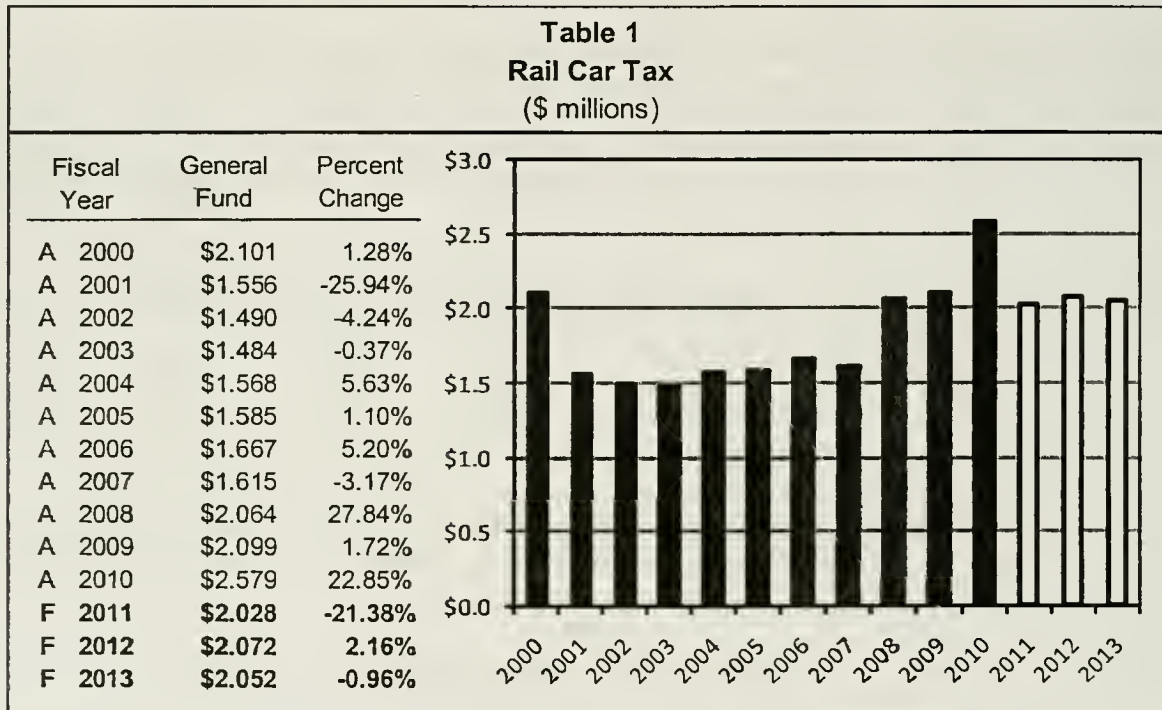
Rail Car Tax

2013 Biennium

Revenue Description

15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The tax is computed by multiplying the taxable value of Montana property by the average statewide mill levy for commercial and industrial property defined in 15-23-211, MCA.

Table 1 shows actual general fund revenue from the rail car tax for FY 2000 through FY 2010 and forecast for FY 2011 through FY 2013.



Risks and Significant Factors

- A slow national economic recovery will change rail car traffic patterns. This is evidenced by the reduction in the number of parked rail cars on Montana sidings; this will lower the Montana allocation of the national rail car fleet. Rail car company billings for FY 2011 reflect this change. These reductions may continue.
- Reduced commercial and industrial property growth may raise statewide average commercial and industrial mill rates more than anticipated, increasing state general fund rail car tax revenue.
- Because tax year (TY) 2010 tax liabilities have been calculated by the Department of Revenue for the Montana allocated value, class 12 tax rate and statewide commercial and industrial mills are known for FY 2011.
- Higher general fund collections in FY 2000 are a product of settlements with rail car companies for back taxes. HB 128, HB 174, SB 111, and SB 200, passed during the 1999 legislative session, decreased the class 12 tax rate, causing a decline in revenue in FY 2001
- Trend mill growth is expected to resume in FY 2012 but is offset by a declining Class 12 tax rate.

Forecast Methodology

Step 1. Forecast the allocated market value of rail car companies operating in Montana. The Montana allocated market value of rail cars is expected to resume its slow (outlier adjusted) trend growth rate as average car transit times fall to normal rates, parked rail cars are brought into service, and fewer cars pay (higher) default rates.

Step 2. Apply the estimates of class 12 tax rates developed as part of the property tax estimate. The rate incorporates the effective weighted average of the tax rates that apply to all commercial and industrial property statewide. A modest reduction in the tax rate is anticipated over the forecast period.

Step 3. Estimate the average statewide mill levy for commercial and industrial property. The mill rates that apply to rail car property have dropped as local mills “floated” down with the initial effects of reappraisal incorporated into the rail car tax formula (rail car taxes are lagged one year from property tax). Mills are expected to grow at trend rates in the future

Step 4. Calculate general fund revenue. Table 2 presents the forecast of allocated market value, Class 12 tax rate, the estimated statewide average commercial and industrial property mill levy, and the resulting general fund tax revenue forecast. Rail car tax collections hold essentially level at just over \$2 million over the forecast period.

Table 2 Calculation of Rail Car Tax Revenue (\$ millions)				
Description	FY 2010 Actual	FY 2011 Billed	FY 2012 Projected	FY 2013 Projected
Total Montana Allocated Value	\$144.031	\$115.455	\$115.983	\$116.510
Multiplied by Class 12 Tax Rate	3.45%	3.40%	3.42%	3.34%
Taxable Value	\$4.969	\$3.920	\$3.967	\$3.891
Multiplied by Mill Levy	524.81	517.31	522.28	527.25
General Fund Revenue	\$2.608	\$2.028	\$2.072	\$2.052

Distribution

The general fund receives 100% of rail car tax revenue.

Data Sources

Historical tax revenue is from SABHRS. The summary rail car tax database (TY 2003 – TY 2010), class 12 tax rates for TY 2003 –TY 2010, and statewide average commercial and industrial mill levies for TY 2003 – TY 2010 were provided by the Department of Revenue.

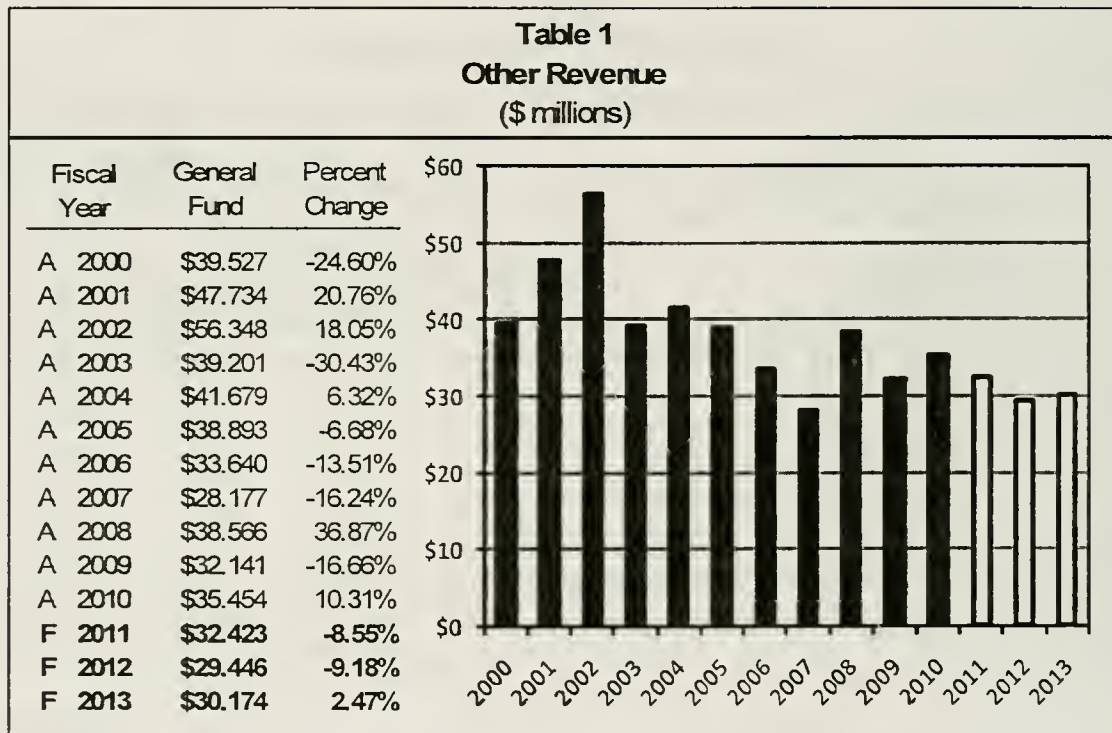
Other Revenue

2013 Biennium

Revenue Description

Other revenue represents the sources of general fund revenue that do not have an individual line item in the revenue estimating resolution. Items included in "other revenue" generate general fund revenue of about \$2 million or less. Other revenue also includes one-time revenue. These one-time revenue have been as large as \$8 million as was the case in FY 2008.

Table 1 shows actual general fund other revenue from FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.



The Montana estate tax was repealed by the passage of Legislative Referendum 116 in 2000, and does not apply for deaths occurring on or after January 1, 2001. Although Montana voters have repealed the inheritance tax and federal law has eliminated the estate tax, the Department of Revenue still collects inheritance and estate tax revenue from unsettled estates of deaths before both taxes were eliminated. All estate and inheritance tax revenue is deposited in the general fund. In the past the estate tax was a much larger revenue source, however this source is not likely to be a significant portion of general fund revenue in the future.

Risks and Significant Factors

- State legislative and national congressional action may have a significant impact on "other revenue".
- Many small variances over a large number of revenue categories may have a significant aggregate effect.

Forecast Methodology and Projection Calculation

The general fund "other revenue" is forecast in four steps:

Step 1. Estimate future one-time revenue.

- Exceptions to one-time revenue include large one-time revenue in FY 2003 and FY 2005 mainly due to legislative action. In FY 2008, the sale of the armory in Missoula for \$3.5 million; unused funds from the *Jobs and Growth Tax Relief Act* totaling \$2.465 million, and HB 4 (May 2007 Special Session) funded \$2.48 million for the Miles City Readiness Center from the long range building fund. The Department of Military Affairs received funding from the federal government, and as a result of specific wording in HB 4, \$2.4 million was returned to the general fund in FY 2008. In FY 2010 there was a large non-budgeted transfer from the Department of Administration for \$0.371 million. However, this transfer was largely overshadowed by a negative \$1.237 million accounting correction made by the Department of Justice related to the implementation of the MERLIN system.

Step 2. Isolate and estimate large sources of other revenue.

- Coal tax transfers are projected to be the difference between the OBPP estimate of the shared account and the appropriations. The forecast was made under the assumption that appropriations will match revenue estimates in the next biennium.
- The veteran's home transfer is the cigarette tax allocated to the state veteran's home in excess of appropriations. This revenue is forecast using the cigarette tax revenue projections from the OBPP and the executive budget appropriation recommendation for the veteran's home.
- The bentonite tax is revenue based on the weight of bentonite production in the state of Montana. Revenue is split between the counties of production, the university system, and the general fund. Bentonite production is estimated to be similar to FY 2009 and FY 2010 levels, and the total revenue is distributed in accordance with 15-39-110, MCA.
- The sale of abandoned property is from financial accounts that have gone dormant and are forwarded to the state. In FY 2010 there was a large sale of abandoned property that was anomalous to normal fiscal years. This is not expected to continue.
- As part of the federal American Reinvestment and Recovery Act and HB 645 (2009 Session) money will be collected in other revenue related to the hospital utilization fee. This is set to terminate in FY 2012.

Step 3. Isolate and estimate smaller sources of revenue.

- There are many small sources of revenue that were forecast individually. These sources are projected like the larger sources of revenue; they are assessed for law changes and forecast based on trends or discussions with agencies.

Step 4. Estimate the remaining revenue as a group and sum the four categories. The general fund revenue that is not classified in one of the three previous groups is estimated as a single group.

Table 2 shows revenue to the general fund that is categorized as one-time revenue.

Table 2 One Time General Fund Revenue		
Fiscal Year	One Time Revenue	Percent Change
A 2001	\$0.478	
A 2002	\$0.564	17.83%
A 2003	\$2.300	308.11%
A 2004	\$0.917	-60.13%
A 2005	\$4.634	405.36%
A 2006	\$1.061	-77.09%
A 2007	\$0.097	-90.89%
A 2008	\$8.387	8570.78%
A 2009	\$0.464	-94.47%
A 2010	-\$0.863	-285.94%
F 2011	\$1.000	-215.87%
F 2012	\$1.000	0.00%
F 2013	\$1.000	0.00%

No extraordinary events are forecast at this time and one-time revenue is anticipated to be \$1 million each year for FY 2011 through FY 2013.

Table 3 shows additional large sources of other revenue. Collections are projected by examining historical deposits to determine whether there is a trend or other pattern in receipts.

Table 3 Large Individual Sources of Other Revenue (\$ millions)						
Source of Revenue	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Fire Reimbursement	\$0.088	\$0.291	\$0.028	\$0.028	\$0.028	\$0.028
Abandoned Property	\$4.264	\$2.480	\$8.503	\$3.021	\$3.082	\$3.143
Clerk of Court Fees	\$3.349	\$3.450	\$3.481	\$3.635	\$3.795	\$3.962
Vet's Home Transfer	\$2.636	\$2.650	\$1.590	\$2.292	\$2.292	\$2.292
Portfolio Transfer	\$3.309	\$3.194	\$2.995	\$3.102	\$3.230	\$3.324
Vehicle and Driving Records	\$2.111	\$2.219	\$1.852	\$1.852	\$1.852	\$1.852
SWCAP / SFCAP	\$2.399	\$1.715	\$3.938	\$3.962	\$4.160	\$4.368
HB 536 Criminal Surcharge	\$1.616	\$1.686	\$1.692	\$1.692	\$1.692	\$1.692
Bentonite Production	\$0.564	\$0.483	\$0.244	\$0.469	\$0.495	\$0.531
Estate Tax	\$0.122	\$0.217	\$0.091	\$0.045	\$0.023	\$0.011
Driver's License Reinstatement	\$1.080	\$1.111	\$1.138	\$1.170	\$1.204	\$1.238
Implementation of Stimulus	\$0.000	\$3.350	\$2.785	\$3.465	\$0.000	\$0.000
DOA Administrative Expense	\$1.334	\$1.556	\$1.554	\$1.554	\$1.554	\$1.554
Total	\$22.873	\$24.401	\$29.890	\$26.287	\$23.406	\$23.996

Table 4 shows the four different revenue categories that make up general fund other revenue for FY 2008 through FY 2010 and forecasted revenue for FY 2011 through FY 2013.

Table 4 All Other Revenue Sources (\$ millions)					
Fiscal Year	One Time	Large Sources	Smaller Sources	Estiamted as a group	Total
A 2008	\$8.387	\$22.873	\$6.935	\$0.371	\$38.566
A 2009	\$0.464	\$24.401	\$6.652	\$0.623	\$32.141
A 2010	(\$0.863)	\$29.890	\$5.679	\$0.749	\$35.454
F 2011	\$1.000	\$26.287	\$4.387	\$0.749	\$32.423
F 2012	\$1.000	\$23.406	\$4.291	\$0.749	\$29.446
F 2013	\$1.000	\$23.996	\$4.430	\$0.749	\$30.174

Data Sources

SABHRS Report MTGL0109 and SABHRS Date Mine provided historical revenue. Global Insight provided forecast numbers for state population, income, and various statistics used in estimating other sources of revenue.



GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

NON-GENERAL FUND REVENUE SECTION 10

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING



School Trust Land Interest and Income

2013 Biennium

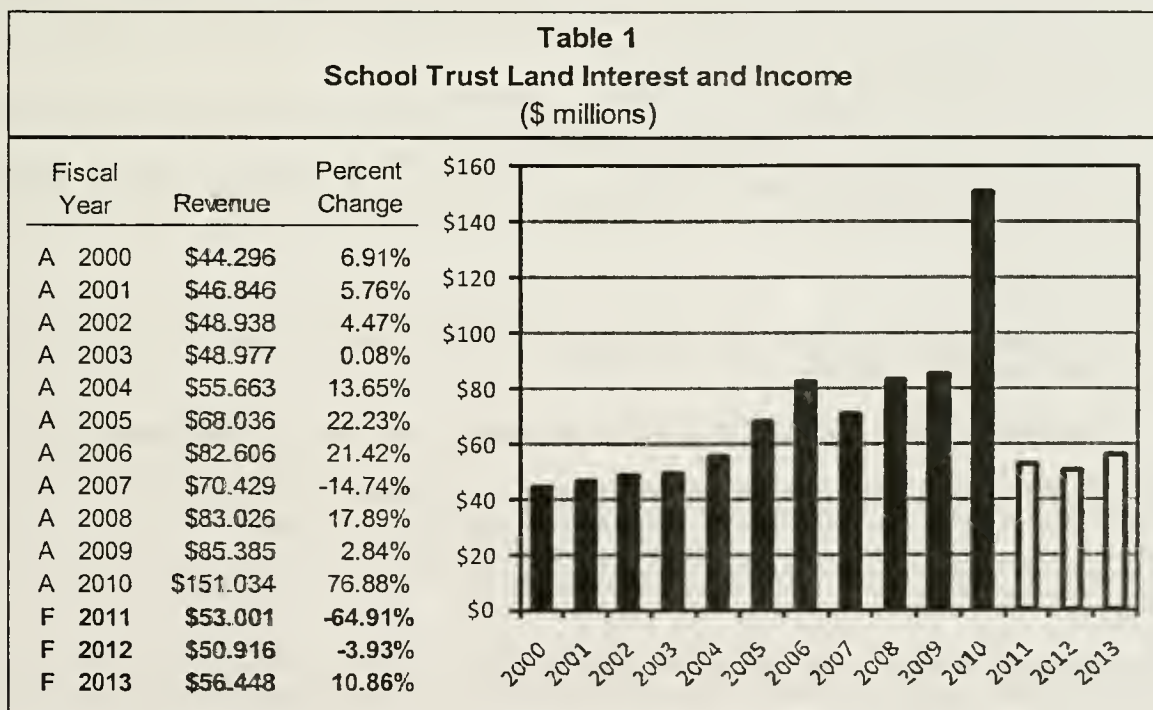
Revenue Description

The United States Congress granted public lands to the state of Montana by the Enabling Act in 1889 to provide income to support public schools. The Enabling Act also granted smaller amounts of land to other state institutions. The land grants have been supplemented over time through gifts to the state, reversions of unclaimed property, and subsequent acts.

Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus, the proceeds are non-distributable. The trust fund is invested, almost exclusively, in the Trust Fund Bond Pool (TFBP). Of the interest income, 5% percent is retained by the trust fund corpus, and 95% of the interest earned by the trust fund, along with other income from the trust lands, is considered distributable. The distributable income from the common school trust land is deposited in the guarantee account for spending on public schools. The distributable income from the other trust lands goes to state special revenue accounts. Costs of administering state lands are deducted from allocations of the income. An amount is also deducted and put into a reserve fund in the event revenues do not meet the required expenses in a given fiscal year, but will be greater than the costs given a longer time period.

Table 1 shows actual distributable income from the Common School Trust for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.

The large increase in revenue in FY 2010 is due to the bonus bid of the Otter Creek coal tracks. The lower level in FY 2011 is due to the changing distribution of mineral royalties to the trust fund corpus rather than common schools. This change became effective toward the end of FY 2010.



School interest and income was deposited in the general fund through FY 2001. Because of SB 495 (2001 Session) and HB 7 (2002 Special Session) a new special revenue account, the guarantee account, was created. Beginning in FY 2002, school trust interest and income is deposited in the guarantee account rather than the general fund.

Revenue increased in FY 2002, because SB 495 resulted in a loan of \$46 million from the coal trust to the school trust fund. The higher school trust fund balance increased interest earnings. SB 495 also allowed \$138.9 million in net

mineral royalties to be distributed to common schools rather than to the trust fund corpus. That limit was reached in FY 2010, and mineral royalty revenue will be deposited into the trust fund corpus to generate interest revenue.

After HB 152 (2009 Session) was passed, all of the revenue generated from timber harvested in the state over 18 million board feet, as well as 95% of the revenue from river bed leases, will be deposited in the school facility and technology improvement account. However, the change in distribution of the revenue from riverbed rents does not take effect until FY 2012.

SB 65 (2009 Session) consolidated four accounts that were used to pay for the administration of the trust fund into a single account. It also allowed for the diversion of up to 25% of the prior year's distributable revenue to be deposited into the trust administration account (TAC) for the Department of Natural Resources' (DNRC) administrative costs. In the event costs were less than what was distributed to the TAC, then up to 1/3 of the excess would be deposited into a newly created reserve account. Money in the reserve account would then be used to cover administrative costs in the event there were inadequate funds in the TAC to cover all of the costs. The remaining revenue would be deposited in the trust fund corpus to generate interest. The balance in the earnings reserve fund may not exceed 200% of the appropriation to the TAC from the prior fiscal year.

Risks and Significant Factors

- In FY 2008 the state of Montana reached an agreement in settlement of litigation under Montana's Hydroelectric Resources Act. The annual fees represent the state's share of net benefits the trust land riverbeds contributes to the hydroelectric project as a whole. Two lease agreements were executed. One agreement is currently being contested and is appealing its case to the U.S. Supreme Court. If the protest is successful, then both companies will pay less, and revenue to common schools will be less. Only the revenue from the signed agreement is being considered in this revenue estimate at this time.
- In FY 2010 the state negotiated the leasing right for the Otter Creek coal tracks. This forecast assumes a coal mine at Otter Creek will not be fully developed during the forecast period. If the coal mine is fully developed then the common school trust fund would receive additional royalty revenue that would be deposited into the trust's corpus and generate more interest revenue.
- Trust revenue is net of administration costs of DNRC. If DNRC's costs vary from expectations, then common school revenue could also be greater or less than anticipated.
- A large source of revenue is derived from timber revenue. New construction in today's economy is below prior years' levels. If the economy recovers more quickly than anticipated, this could lead to an increase in new construction which would increase the demand for timber.

Forecast Methodology

- Step 1.** Total interest earnings from the trust and legacy fund are based on interest rate forecasts described in the *Interest Rate Introduction* section.
- Step 2.** The Common School portion of the total trust fund is then estimated and applied to yield interest income.
- Step 3.** Agricultural and grazing rentals are determined based on the estimated value of wheat in Montana, the estimated price of cattle, and trends in revenue collections for these types of rentals.
- Step 4.** School trust non-royalty mineral income is based on projections provided by the DNRC and historical projection patterns.
- Step 5.** Timber revenue is based on projections by DNRC, long-term trends, and executive budget recommendations. The price of timber, along with decisions about the amount of land to be harvested, could have an effect on trust land revenues.
- Step 6.** Mineral royalties are calculated based on projections for DNRC and price estimates based on Global Insight forecasts.
- Step 7.** All other revenue to the common school trust is forecast based on communication with DNRC and long-term trends.

Step 8. All the pieces are added together and distributed appropriately.

Total projected revenue by income source for FY 2008 through FY 2010 and forecast values for FY 2011 through FY 2013 are shown in Table 2.

Table 2 Total Revenue (\$ millions)							
Fiscal Year	Trust and Legacy Interest Income	Agriculture and Grazing Revenue	Non-Royalty Mineral Revenue	Timber Revenue	Mineral Royalties Revenue	Other Revenue	Total Revenue
A 2008	\$23.428	\$18.690	\$5.934	\$7.317	\$31.048	\$14.171	\$100.586
A 2009	\$21.094	\$20.551	\$15.379	\$5.457	\$27.663	\$13.008	\$103.151
A 2010	\$21.370	\$16.846	\$104.024	\$5.381	\$20.604	\$17.255	\$185.479
F 2011	\$19.640	\$17.342	\$6.424	\$5.575	\$21.004	\$14.396	\$84.380
F 2012	\$20.842	\$13.743	\$6.385	\$5.707	\$22.093	\$14.634	\$83.405
F 2013	\$23.132	\$17.228	\$6.349	\$5.683	\$23.009	\$14.878	\$90.279

Table 3 shows forecast gross revenue, estimated administrative expenses, allocation and net revenue to schools for FY 2011 through FY 2013. Future administrative expenses are based on executive budget recommendations for FY 2011 through FY 2013.

Table 3 School Trust Income Allocation and Distribution (\$ millions)			
Fiscal Year	FY 2011	FY 2012	FY 2013
Distributable Income			
Investment Income	\$19.640	\$20.842	\$23.132
Agriculture and Grazing Rents	\$17.342	\$13.743	\$17.228
Non-Royalty Mineral Income	\$6.424	\$6.385	\$6.349
Timber Revenue < 18 mmbf	\$4.775	\$4.889	\$4.868
River Lease Revenue	\$4.300	\$4.386	\$4.473
Licenses and Other Income	\$2.966	\$3.000	\$3.034
Subtotal	\$55.446	\$53.245	\$59.084
Non Mineral Expenses	\$0.498	\$0.510	\$0.523
Income Less Expenses	\$54.949	\$52.735	\$58.561
Distributable Income (95% of Income Less Expenses)	\$52.201	\$50.098	\$55.633
Plus 100% Timber Revenue > 18 mmbf	\$0.800	\$0.819	\$0.815
Net Income (Excluding Mineral Royalties)	\$53.001	\$50.916	\$56.448
Mineral Royalties			
Mineral Royalties	\$21.004	\$22.093	\$23.009
TAC Expense	\$4.100	\$4.203	\$4.308
Less Trust and Legacy Mineral Revenue	\$16.904	\$17.891	\$18.701
Total Income	\$53.001	\$50.916	\$56.448
Distribution			
Facility and Technology Account	\$4.884	\$4.985	\$5.065
Guarantee Fund BASE Aid – School Equalization	\$48.117	\$45.931	\$51.383
Total Distribution	\$53.001	\$50.916	\$56.448

Data Sources

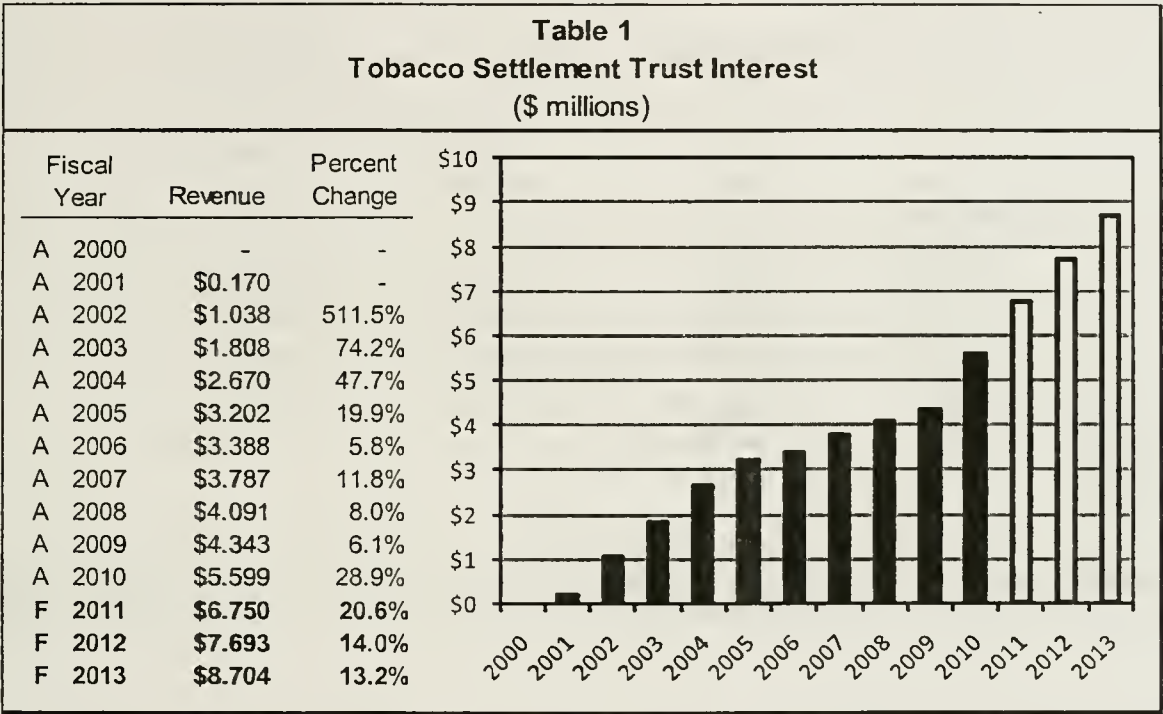
Historical interest income information was provided by the State Street Bank and BOI monthly reports. Historical wheat and cattle data is from the USDA's website, [http://www.nass.usda.gov/Statistics by State/Montana/](http://www.nass.usda.gov/Statistics_by_State/Montana/). Forecasts for wheat and cattle prices were obtained from the USDA's February 2008 Long Term Projections available at <http://usda.mannlib.comell.edu/MannUsda/viewStaticPage.do?url=http://usda.mannlib.comell.edu/usda/ers/94005>.

Tobacco Settlement Trust Interest

2013 Biennium

Revenue Description

Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest earnings from this trust fund are retained in the trust and 90% are deposited in a special revenue account and may be appropriated by the Legislature for tobacco prevention and health care programs (17-6-603, MCA).



The tobacco settlement trust was established in January 2001, following passage of Constitutional Amendment 35 in the November 2000 election. Spendable interest is the portion of tobacco trust interest that is not retained by the trust. Tobacco trust interest revenue is growing rapidly because the trust fund balance is growing with the settlement payments made each year.

Forecast Methodology and Significant Factors

There are three steps to forecasting interest revenue from the tobacco trust fund:

- Step 1.** The annual average balance of the fund is projected. The fund balance increases yearly as 40% of the tobacco settlement payments and 10% of the interest earned on the fund balance are deposited into the trust fund.
- Step 2.** The annual average balance by investment type is projected. The fund balance is invested in the short-term investment pool (STIP) and the trust fund bond pool (TFBP). STIP and TFBP are managed by the Board of Investments and forecast of annual rates of return for STIP and TFBP are explained in the *Interest Rate Introduction*.
- Step 3.** Interest earnings are forecast by multiplying the balance by the interest rate. The STIP and TFBP interest rates are expected to change throughout the 2013 biennium. However, total tobacco trust fund income will continue to increase each year because the increasing trust fund balance offsets lower interest rates, to the extent that lower interest rates are realized.

Distribution

Table 2 summarizes actual and projected interest earnings and the allocation of interest earnings from FY 2005 through FY 2013. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account.

Table 2 Tobacco Trust Interest Revenue Distribution (\$ millions)				
Fiscal Year	Reinvested Revenue (10%)		Remaining Revenue (90%)	Total Interest Revenue
A 2005	\$0.320	+	\$2.882103	= \$3.202
A 2006	\$0.339	+	\$3.048774	= \$3.388
A 2007	\$0.421	+	\$3.787441	= \$4.208
A 2008	\$0.455	+	\$4.091095	= \$4.546
A 2009	\$0.483	+	\$4.342652	= \$4.825
A 2010	\$0.560	+	\$5.038781	= \$5.599
F 2011	\$0.675	+	\$6.075356	= \$6.750
F 2012	\$0.769	+	\$6.923475	= \$7.693
F 2013	\$0.870	+	\$7.833917	= \$8.704

Data Sources

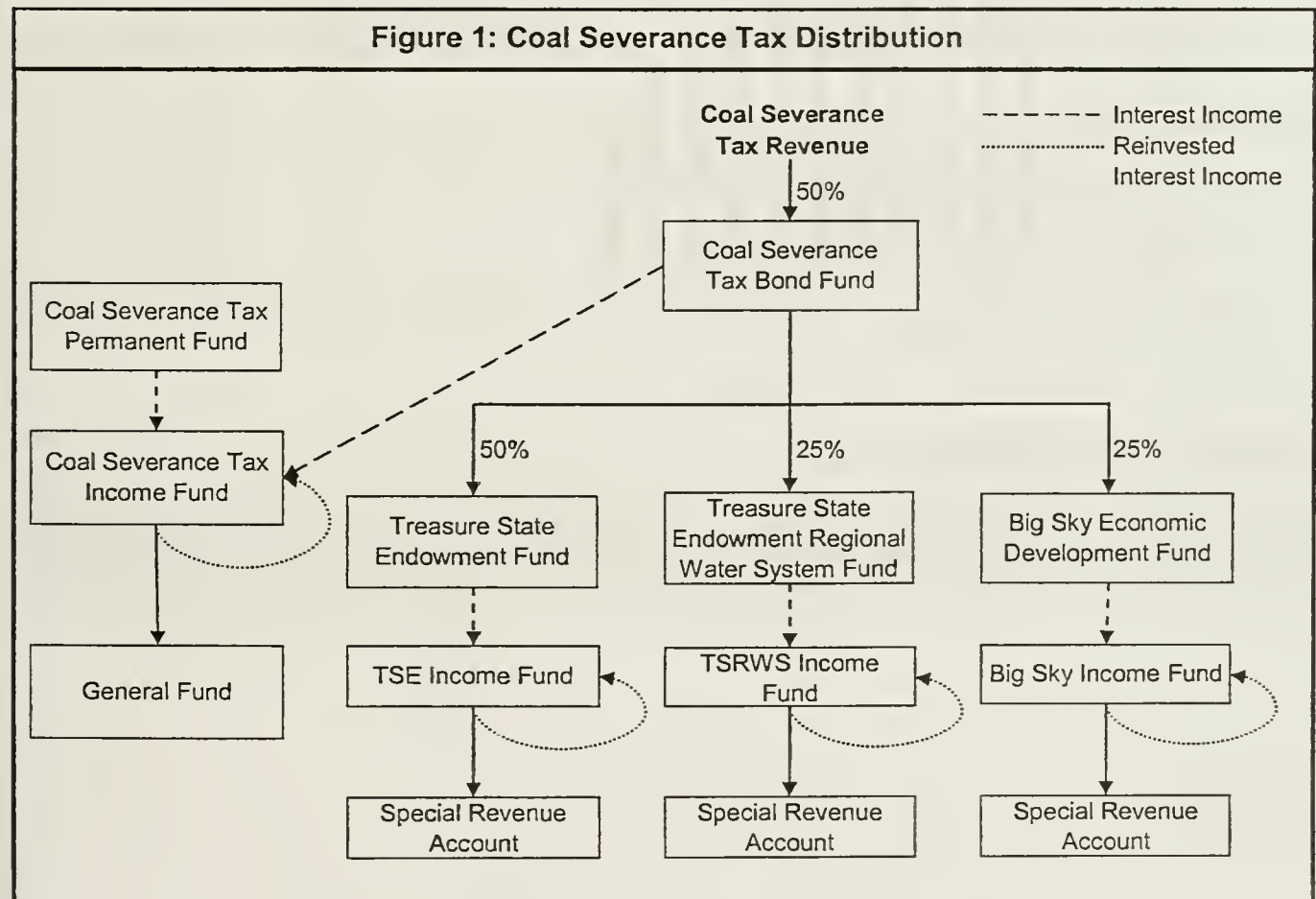
Tobacco trust balances and earnings are obtained from the Board of Investments (BOI) and SABHRS. Projections of tobacco settlement deposits are from the *Tobacco Master Settlement Agreement Revenue* estimation. Projections of the STIP and TFBP interest rates are from *Interest Rate Introduction*.

Revenue Description

Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited as principal. Interest income from this principal may be appropriated, but the principal itself is inviolate unless approved by $\frac{3}{4}$ of the members of each house in the legislature. Under current law, 50% of coal severance tax revenue is deposited in the trust fund, which is divided into the following permanent funds. (17-5-703, MCA)

- coal severance tax bond fund
- coal severance tax permanent fund
- treasure state endowment fund (TSE)
- treasure state endowment regional water system fund (TSRWS)
- big sky economic development fund (Big Sky)

The coal severance tax revenue allocated to the trust is initially deposited in the coal severance tax bond fund. The revenue is then distributed to the various accounts as shown in Figure 1.



Coal Severance Tax Bond Fund

The coal severance tax revenue deposited into the coal severance tax bond fund (bond fund) secures state issued bonds, called coal severance tax bonds. The tax bonds are issued to finance loans through the Department of Natural

Resources and Conservation (DNRC). The Department of Revenue (DOR) administers the bond fund, and at the beginning of a fiscal year, DNRC informs DOR of the amount necessary to meet all principal and interest payments on coal severance tax bonds in the next twelve months. This amount is maintained as a reserve balance in the bond fund.

A portion of the reserve balance in the bond fund is invested in the short-term investment pool (STIP). This investment averages about \$6 million per year, and the interest earnings are deposited in the coal severance tax income fund. The coal severance tax income fund balance is transferred monthly to the general fund, but the balance is invested in STIP during the interim with the reinvested interest income returning to the fund.

The coal severance tax revenue that is not reserved in the bond fund is allocated 50% to the Treasure State Endowment fund, 25% to the Treasure State Endowment Regional Water System fund, and 25% to the Big Sky Economic Development fund.

Risks and Significant Factors

- The Federal Open Market Committee (FOMC) may decide to keep interest low as a way to encourage economic growth.
- It is possible the FOMC will begin to increase the federal funds rate more rapidly than anticipated if they feel inflation threatens the health of the national economy.
- If the national economy were to enter another deep recession, there will be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.
- The amount of coal severance tax revenue deposited into the balance of the fund will have an effect on the interest earnings.

Forecast Methodology

Revenue for the three trust funds is forecast in two main steps.

Step 1. Estimate the composition of the trusts investments

Step 2. Apply the appropriate interest rate to the different investments. The different rates of return are forecast in the *Interest Rate Introduction* section.

The following sections discuss the revenue for each individual trust.

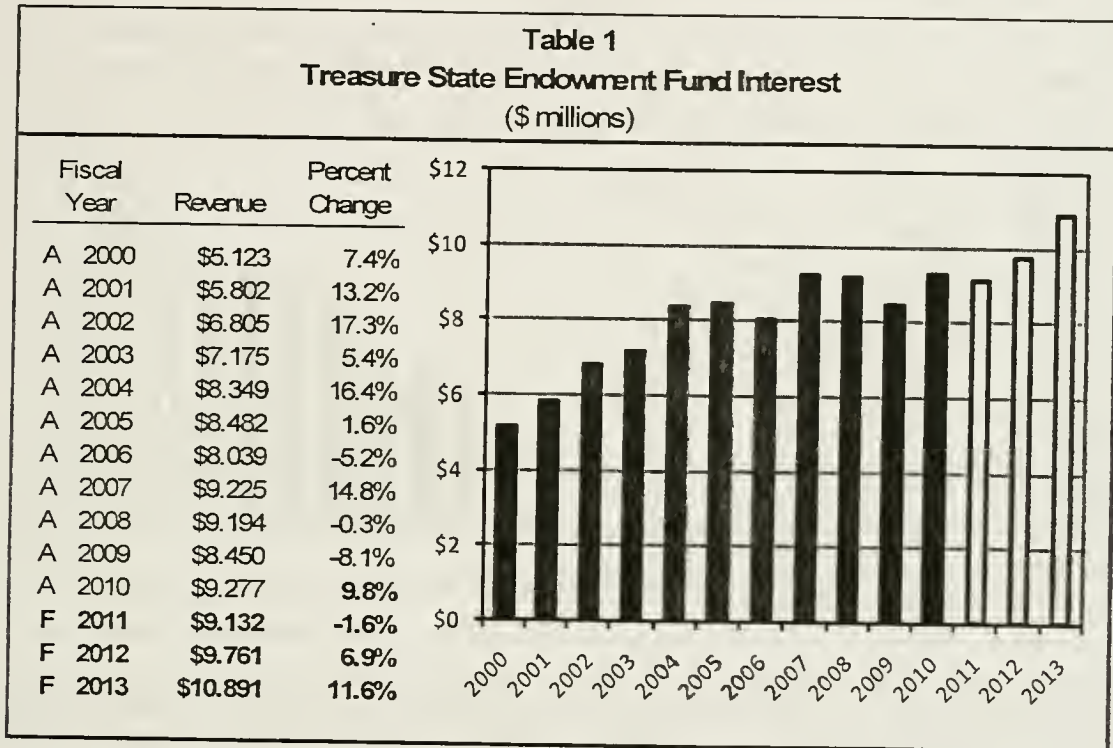
Coal Severance Tax Permanent Fund

The coal severance tax permanent fund (permanent fund) is the original coal tax trust fund. The permanent fund does not currently receive any coal severance tax revenue, but it earns interest income. The permanent fund balance in FY 2010 was \$531 million and 39% was invested in loans, 2% was invested in STIP, and the remaining 59% was invested in the Trust Fund Bond Pool (TFBP). The interest earnings from the permanent fund are deposited into the coal severance tax income fund. General fund interest earning is discussed in the *Coal Trust Interest Earning* section.

Treasure State Endowment Fund

The TSE fund is used for local government projects improving drinking water systems, wastewater treatment facilities, sewer systems, solid waste disposal systems, and bridges.

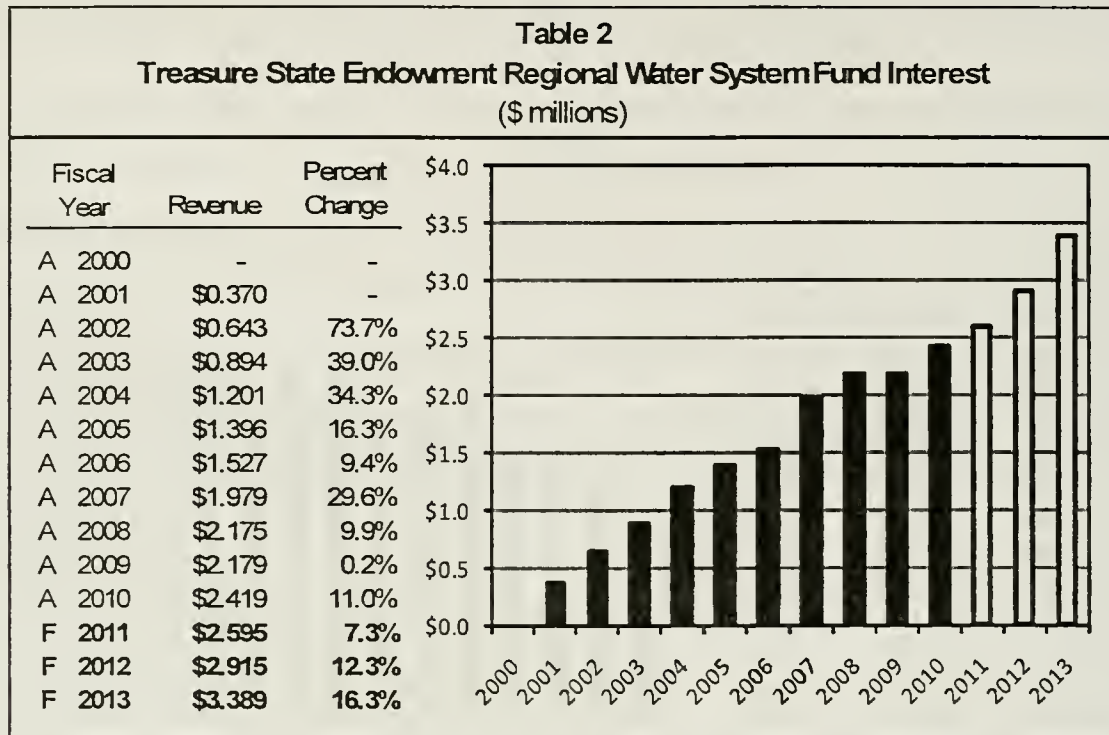
The coal tax contributions to the TSE have varied across years. From FY 2001 to FY 2003, the trust fund received 37.5% of net coal tax collections. Deposits to the trust fund fell in FY 2004, because the TSE fund allocation dropped to 25% of net coal tax collections (SB 10, 2003 Session).



The TSE fund receives 50% of the coal severance tax transfers from the bond fund, or 25% of coal severance tax revenue. The fund balance at the end of FY 2010 was \$183 million with 99% of the balance invested in TFBP, approximately 1% invested in loans, and less than 1% invested in STIP. The interest income from the TSE fund is deposited in the TSE income fund, which earns reinvested interest income from STIP investments. The money needed for local government projects is transferred from the income fund to a special revenue account for distribution.

Treasure State Endowment Regional Water System Fund

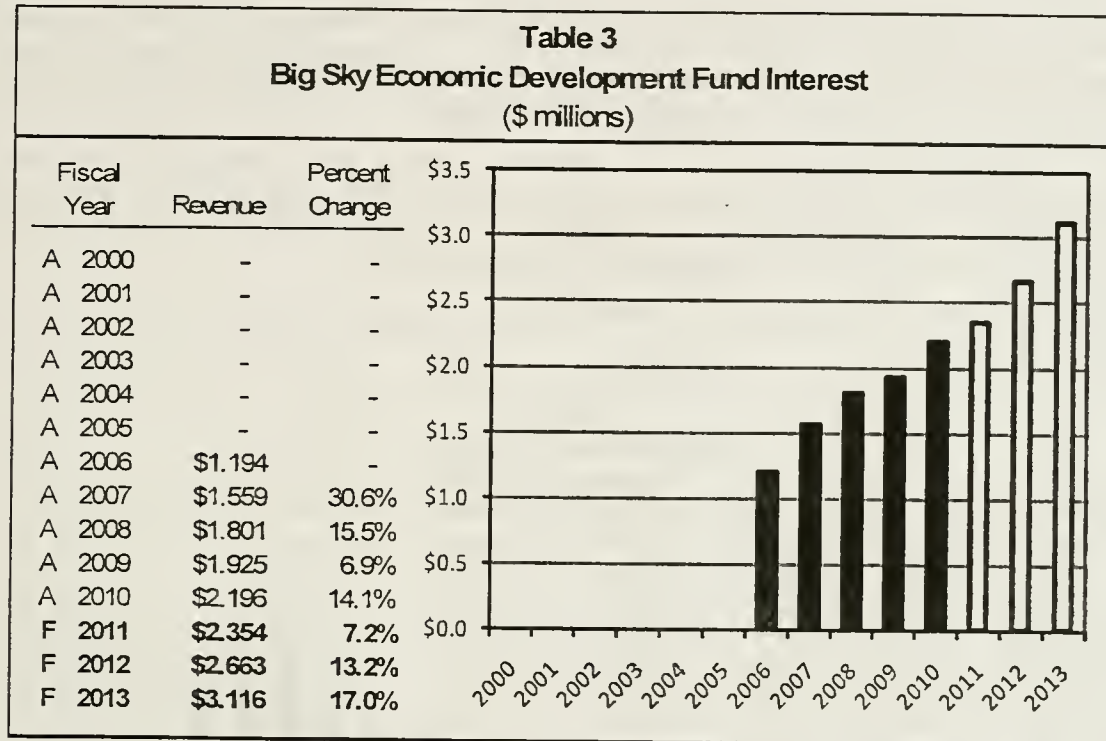
The TSRWS provides funding for regional water projects. Funds may be used to match funds for construction of water systems, pay debt service on water system bond issues, pay administrative expenses of state and local entities, and provide interim funding to state or local entities pending receipt of grants or loans.



TSRWS receives 25% of the coal severance tax transfers from the bond fund, or about 12.5% of coal severance tax receipts. The fund balance at the end of FY 2010 was \$51 million, which was invested 99% in TFBP and less than 1% in STIP. The interest income from TSRWS is deposited in the TSRWS income fund, which is invested in STIP. Funds needed for projects are transferred to a special revenue account for distribution.

Big Sky Economic Development Fund

On July 8, 2005, \$20 million was taken from the permanent fund to create the Big Sky Fund. The interest income from the Big Sky Fund provides financial assistance for economic development to local governments and certified regional development corporations.



The Big Sky Fund will receive 25% of the coal severance tax transfers from the bond fund. The year end fund balance in FY 2010 was \$47 million. This balance was invested 99% in TFBP and less than 1% in STIP. Income from this investment is transferred to a state special revenue account to fund program expenditures. Income not needed for program expenditures remains in the Big Sky Fund and earns interest.

Data Sources

Trust fund balances and earnings were obtained from the Board of Investments and SABHRS. Establishment and legal description of the coal trusts is discussed in 17-5-701 through 17-5-731, MCA. The Department of Natural Resources and Conservation Annual Report (2005) provided information on the Coal Severance Tax Bond Fund and debt service account.

Resource Indemnity Tax

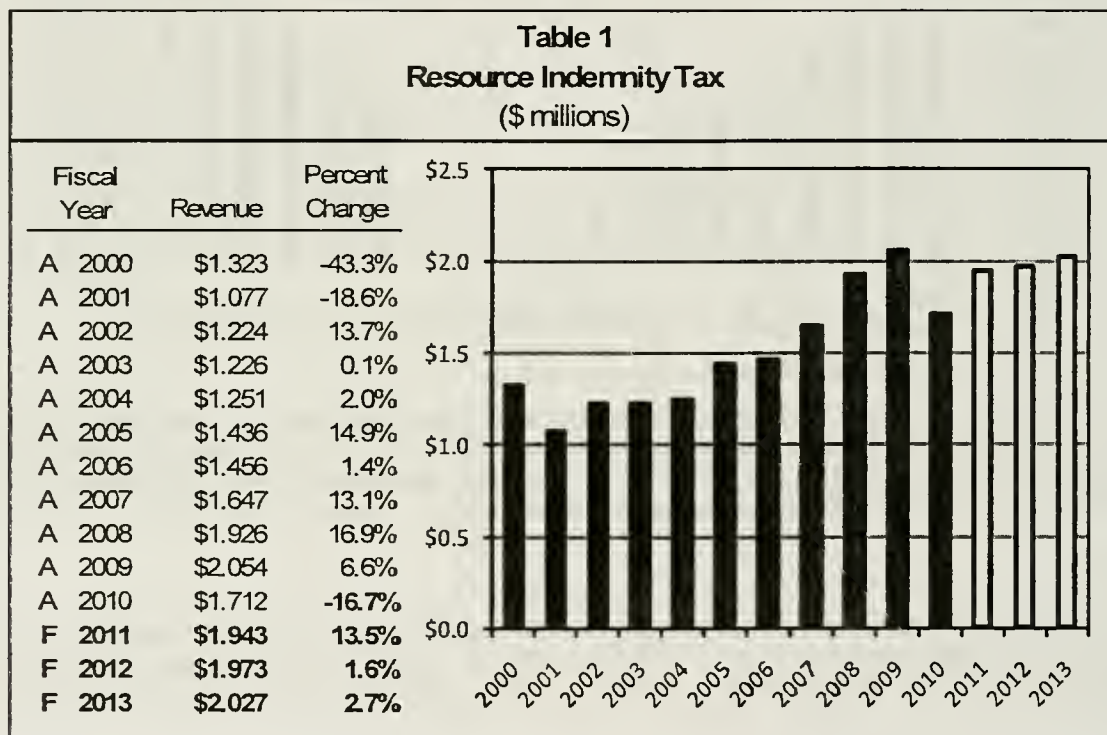
2013 Biennium

Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the Resource Indemnity Tax or RIT) funds the Resource Indemnity Trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its citizens. The purpose of the trust and other programs is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

Until the Resource Indemnity Trust Fund balance reached \$100 million, 50% of the Resource Indemnity Tax was deposited in the trust fund. The fund balance reached \$100 million in December 2001, and this allocation ceased. Under current law, the tax is deposited into several state special revenue accounts.

Table 1 shows actual Resource Indemnity Tax revenues for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.



The tax rates for RIT vary depending on the type of mineral being extracted.

- Talc's tax rate is \$25 plus an additional 4% of the gross value of the talc produced in excess of \$625 in the prior calendar year.
- Coal's tax rate is \$25 plus an additional 0.4% of the gross value of the coal produced in excess of \$6,250 in the prior calendar year.
- Vermiculite's tax rate is \$25 plus an additional 2% of the gross value of the vermiculite produced in excess of \$1,250 in the prior calendar year.
- Limestone's tax rate is \$25 plus an additional 10% of the gross value of the limestone produced in excess of \$250 in the prior calendar year.
- Industrial gemets and its associated byproducts tax rate is \$25 plus an additional 1% of the gross value of product in excess of \$2,500 in the prior calendar year.
- All other mineral's tax rate (excluding metals, oil, and natural gas) is \$25 and an additional 0.5% of the gross value of the product in excess of \$5,000 in the prior calendar year.

Forecast Methodology

There are 2 steps in forecasting RIT revenues:

- Step 1.** Estimate the amount of revenue from coal production. Coal production is increased proportionally by the same amount as the forecast coal production in the *Coal Severance Tax Revenue* estimate.
- Step 2.** All other minerals that pay the Coal Severance Tax are projected to increase at the same rate as the Global Insight forecast for minerals and mineral product's producer price index.

Table 2 shows the actual and forecast RIT revenues from coal production and other mineral production.

Table 2 Resource Indemnity Tax (\$ millions)				
Fiscal Year	Coal Tax Revenue		Other Minerals Tax Revenue	Total
A 2001	\$0.952	+	\$0.125	= \$1.077
A 2002	\$0.999	+	\$0.225	= \$1.224
A 2003	\$0.963	+	\$0.262	= \$1.226
A 2004	\$0.966	+	\$0.285	= \$1.251
A 2005	\$1.109	+	\$0.328	= \$1.436
A 2006	\$1.087	+	\$0.370	= \$1.456
A 2007	\$1.212	+	\$0.435	= \$1.647
A 2008	\$1.215	+	\$0.711	= \$1.926
A 2009	\$1.262	+	\$0.792	= \$2.054
A 2010	\$1.362	+	\$0.350	= \$1.712
F 2011	\$1.599	+	\$0.344	= \$1.943
F 2012	\$1.618	+	\$0.355	= \$1.973
F 2013	\$1.653	+	\$0.375	= \$2.027

Distribution

The Resource Indemnity Tax revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the water storage account (85-1-631, MCA), the Hazardous Waste/CERCLA state special revenue account (75-10-621, MCA), the Environmental Quality Protection Fund (75-10-704, MCA), and the Natural Resource Projects state special revenue account (15-38-302, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund must allocate the required amount to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA).

Second, \$0.366 million is distributed to the groundwater assessment account. In FY 2003, the groundwater assessment account allocation increased from \$0.300 million to \$0.366 million (SB 322, 2001 session). In FY 2005, the groundwater assessment account received only \$0.114 million due to a correction from a previous error in distribution.

Third, at the beginning of the biennium (even numbered years), \$0.150 million is allocated to the water storage state special revenue account.

Fourth, 25% of the remaining revenue is distributed to the Hazardous Waste /CERCLA state special revenue account, 25% is distributed to the Environmental Quality Protection Fund, and 50% to the Natural Resource Projects state special revenue account.

Table 3 shows the actual and forecast distribution of the RIT revenue for FY 2008 through FY 2013.

Table 3 Resource Indemnity Tax Revenue Allocation (\$ millions)							
Fiscal Year	CERCLA match debt service fund	Groundwater Assessment	Water Storage	Environmental Quality Protection	Hazardous Waste / CERCLA	Natural Resources Projects	Total
A 2008	\$0.273	\$0.366	\$0.150	\$0.284	\$0.284	\$0.568	\$1.926
A 2009	\$0.272	\$0.366	\$0.000	\$0.354	\$0.354	\$0.708	\$2.054
A 2010	\$0.272	\$0.366	\$0.150	\$0.231	\$0.231	\$0.462	\$1.712
F 2011	\$0.272	\$0.366	\$0.000	\$0.326	\$0.326	\$0.652	\$1.943
F 2012	\$0.272	\$0.366	\$0.150	\$0.296	\$0.296	\$0.593	\$1.973
F 2013	\$0.272	\$0.366	\$0.000	\$0.347	\$0.347	\$0.694	\$2.027

Data Sources

Historical allocations were obtained from SABHRS MTGL0109 report, historical RIT production was obtained from a Department of Revenue GENTAX data extract, price forecasts were from Global Insight's National Economic Forecast.

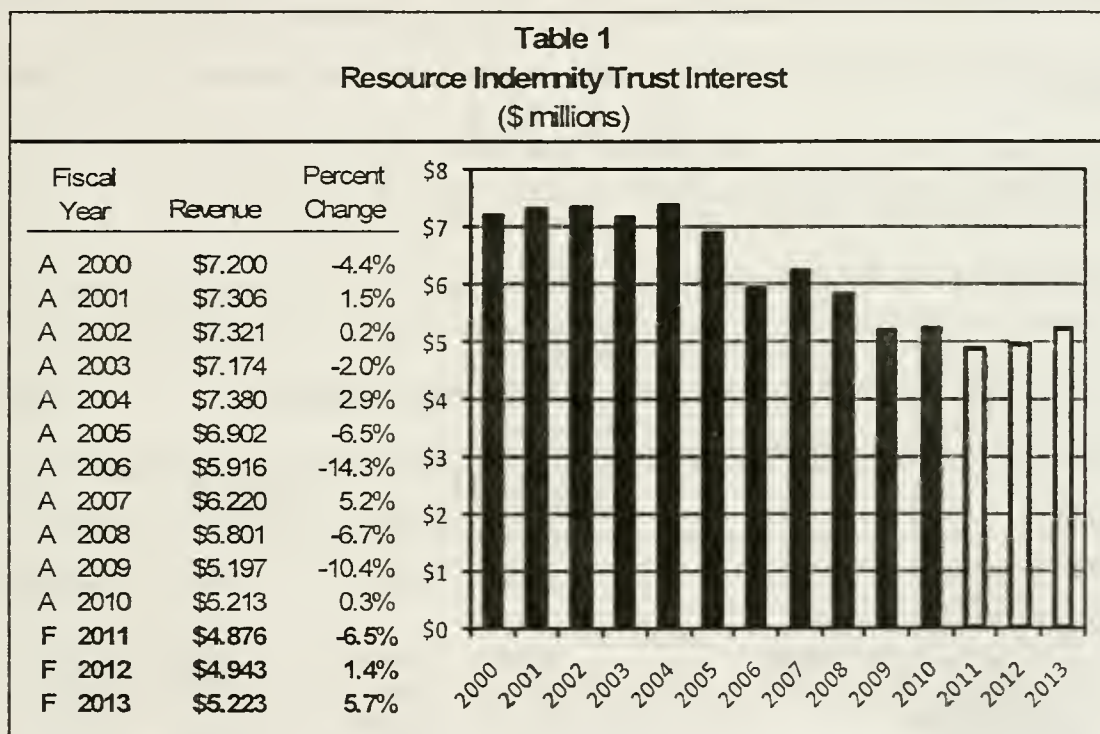
Resource Indemnity Trust Interest

2013 Biennium

Revenue Description

Title 15, Chapter 38, MCA, created a Resource Indemnity Trust (RIT) Fund to indemnify the citizens of Montana for depletion of the state's natural resources and for the environmental damage from mineral development. The trust was to be funded with proceeds from the Resource Indemnity Tax until the trust balance reached \$100 million, which occurred in December 2001. Deposits from the Resource Indemnity Tax ceased at that point, and the balance has remained at \$100 million. Income from the trust fund is used to fund environmental and natural resource programs.

Table 1 shows actual interest income from the RIT fund from FY 2000 to FY 2010 and forecast income for FY 2011 through FY 2013.



Forecast Methodology

The interest income is forecast in two steps:

Step 1: Estimate the balance of the RIT fund.

Step 2: Apply the appropriate interest rates forecast in the *Interest Rates Introduction* section.

Distribution

The revenue distribution of the RIT interest revenue is defined in section 15-38-202, MCA. Some of the accounts receive a fixed allocation per biennium, some accounts receive a fixed allocation per fiscal year, some accounts receive a percentage each fiscal year of remaining revenue after the fixed allocations have been made, and some accounts receive both a fixed and a percentage allocation.

In the first year of each biennium the following accounts receive these fixed allocations:

- \$50,000 is allocated to the oil and gas production damage mitigation account until the account balance reaches \$200,000 (82-11-161, MCA);
- \$500,000 is allocated to the water storage account (85-1-631, MCA), and
- \$175,000 is allocated to the environmental contingency account until the account balance reaches \$750,000 (75-1-1101, MCA).

Each fiscal year the following accounts receive these fixed allocations:

- \$3.5 million is allocated to the natural resource projects account for grants (15-38-302, MCA);
- \$300,000 is allocated to the groundwater assessment account (85-2-905, MCA); and
- \$500,000 is allocated to the Department of Fish, Wildlife and Parks for the trout habitat enhancement program (87-1-283, MCA). HB 9 (2002 Special Session) reduced the FY 2005 allocation to \$350,000.

Each fiscal year any funds remaining after all fixed allocations have been made are distributed to the following accounts in these proportions:

- 65% is allocated to the natural resource operation account;
- 26% is allocated to the hazardous waste/CERCLA account (75-10-621, MCA); and
- 9% is allocated to the environmental quality protection fund (75-10-704, MCA).

Table 2 shows the distribution of RIT interest for FY 2010 and the forecast distribution for FY 2011 through FY 2013.

Table 2 Resource Indemnity Trust Interest Allocation (\$ millions)				
Entity	Actual	Forecast		
	FY 2010	FY 2011	FY 2012	FY 2013
Total Revenue	\$5.213	\$4.876	\$4.943	\$5.223
Biennial Fixed Allocations				
Oil & Gas Damage Mitigation	\$0.050	\$0.000	\$0.050	\$0.000
Environmental Contingency	\$0.175	\$0.000	\$0.093	\$0.000
Water Storage	\$0.500	\$0.000	\$0.500	\$0.000
Annual Fixed Allocation				
Natural Resources Projects	\$3.500	\$3.500	\$3.500	\$3.500
Ground Water Assessment	\$0.300	\$0.300	\$0.300	\$0.300
Future Fisheries	\$0.500	\$0.500	\$0.500	\$0.500
Remainder	\$0.188	\$0.576	\$0.000	\$0.923
Annual Percentage Allocations				
Natural Resource Operations (65%)	\$0.122	\$0.374	\$0.000	\$0.600
Hazardous Waste/CERCLA (26%)	\$0.049	\$0.150	\$0.000	\$0.240
Environmental Quality Protection (9%)	\$0.017	\$0.052	\$0.000	\$0.083

Data Sources

Investment balances and interest earnings data was obtained from the Board of Investments (BOI) and SABHRS.



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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

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